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World news

France on alert after Abdallah sentence

France stepped up security fearing reprisal terrorist acts following the imposition of a life sentence on Georges Ibrahim Abdallah, alleged leader of the Lebanese Revolutionary Armed Faction.

He was found guilty in Paris of being involved in the murder of an American and an Israeli diplomat in 1982 and in an attempt on the life of another US diplomat in 1984.

Checks at border posts, airports and railway stations were increased, and 1,000 extra police and security staff are on duty in Paris to control shopping arcades, cinemas and other places regarded as possible targets for bomb attacks. Page 16

Israel jails Arabs

An Israeli military court sentenced two Arab guerrillas to life in prison for the murder of a soldier they kidnapped in a plot to exchange him for Arabs held in Israeli jails. The court said Walid Nimer Assad Daka and Rushdi Hamdom Abu-Moch murdered Moshe Taman, 20, in 1984.

Haughey setback

Mr Charles Haughey's difficulties in securing election as Prime Minister when the Irish parliament resumes on March 10 after last month's general election increased at the weekend when the leftist Workers Party decided to oppose his nomination. Page 2

Sri Lanka deaths

Nineteen people were killed in fighting between soldiers and Tamil rebels in Sri Lanka while President Junius Jayewardene prepared to meet Sirimavo Bandaranaike, leader of the Sri Lanka Freedom Party, to discuss the island's ethnic conflict.

Spaniards march

Three thousand demonstrators against the American military presence in Spain marched to a joint Spanish and US air base at Torrejon de Ardoz, which is at the centre of talks on reducing the number of US troops at four bases.

Lebanon death toll

Almost 400 people died violently in Lebanon last month, a sharp rise from the previous month's toll of 165, police, hospital and militia sources said. The figure of 390 deaths is the highest since November.

Gulf war battle

Iran and Iraq both claimed victory in a Gulf war battle near the strategic southern Iraqi city of Basra, three days after Tehran said it was ending a major offensive in the area.

Food for refugees

Flour, powdered milk and canned food was distributed under Syrian supervision among refugees in the Shatila and Bourj al-Barajneh Palestinian refugee camps in Beirut. Four truckloads of food were provided by the pro-Syrian Palestine National Salvation Front.

Egyptian unrest

Police arrested 60 Moslem fundamentalists in the southern Egyptian towns of Sohag and Beni Suef following sectarian unrest involving attempts to burn Coptic Christian churches.

'Afghans return'

Afghan head of state and communist part leader Najib said in West Germany that 90,000 exiles and former rebels had returned to Afghanistan since he declared a ceasefire in the country's civil war in January.

Expedition called off

A joint Norwegian, British and Danish expedition has been taken off the Antarctic ice after failing to reach the South Pole. The four-member party was picked up by its support ship in the Bay of Whales.

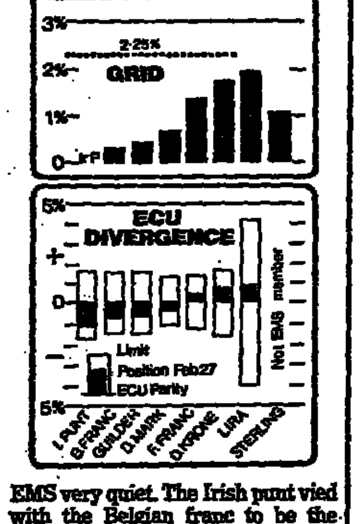
Business summary

Manila to propose debt solution

PHILIPPINES Secretary of Finance, Mr Jaime Ongpin, arrives in New York today for debt talks with a proposal to resolve a pricing deadlock that has blocked rescheduling of about $9.3bn of principal since November. Page 3

Meanwhile Brazilian Finance Minister Mr Dilson Funaro, who expects his country to achieve a $8bn trade surplus this year, said the duration of Brazil's suspension of interest payments on medium and long-term debt would depend on what financing proposals its creditors could offer, Page 2

European Monetary System: Stability on the currency markets was one of the main aims of the Paris Group of Six meeting, and the dollar performed very steadily last week, in spite of disappointing US economic news. This helped keep trading among the members of the



EMS very quiet. The Irish punt vied with the Belgian franc to be the weakest EMS currency, but the D-mark was steady, in the middle of the system, and there was no sign of pressure.

The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

TOKYO share prices soared in the half-day session on Saturday as heavy buying spread across a broad front. The Nikkei average rose 345 to a record 20,766.66.

HONG KONG'S leading banks raised their prime lending rate by a percentage point to 8 per cent today as speculative pressure subsided on the exchange rate between Hong Kong and US dollars.

LISBON stock exchange is to stay closed this week after the Mardi Gras holiday in order to catch up with paperwork.

AMERICAN EXPRESS, diversified US financial services group, confirmed it was studying the future of Shearson, Lehman Brothers, leading securities brokerage house it acquired in 1981. American Express share price rose sharply last week on speculation that it might sell a minority stake in Shearson or spin it off to shareholders.

BORG-WARNER, US vehicle parts and industrial products group, has rejected a A$162m ($108m) takeover bid for its Australian unit from BTR-Nylex, the 59 per cent-owned Australian offshoot of the UK conglomerate, Page 19

SAN MIGUEL, largest industrial corporation in the Philippines, has been forced to accept onto its board the chairman of a government controlled bank that is managing over half the beer company's shares. Page 17

SAGA PETROLEUM, Norwegian oil company, lifted profits after financial items to about [illegible] for 1986, helped by large gains on currency transactions. This compared with NKr 13.7m in 1985, Page 19

FRENCH railways (SNCF) are considering a further cutback of 2,000 to 3,000 jobs this year in addition to 8,000 already planned, according to union officials.

US, European allies welcome Gorbachev's arms proposals

BY LIONEL BARBER IN WASHINGTON AND ROBERT MAUTHNER IN LONDON

THE US and most of its European allies responded positively yesterday to the proposal by Mr Mikhail Gorbachev, the Soviet leader, that the Soviet Union and the US strike a separate deal to abolish intermediate-range nuclear forces (INF) in Europe within five years.

The White House announced that the US would soon make a counter-proposal at the arms control talks with the Soviet Union in Geneva. The US offer, like the one made by Mr Gobachev, is likely to be in line with the provisional agreement on INF reached by President Ronald Reagan and the Soviet leader at their summit meeting in Reykjavik last October.

"The Soviet Union suggests that the problem of medium-range missiles in Europe be singled out from the package of issues and that a separate agreement on it be concluded without delay."

– Mikhail Gorbachev

In a statement issued on behalf of the Soviet leadership on Saturday night, Mr Gorbachev dropped the previous Soviet insistence that any arms control agreements should be part of a package involving curbs on President Ronald Reagan's project for a space-based defensive system (SDI).

It was the most important Soviet initiative since the Reykjavik meeting, when outline accords were reached on INF and strategic weapons reductions but an overall agreement was blocked mainly because of disagreements over SDI.

Though Moscow had frequently indicated in the past that it was prepared to reach a separate agreement on medium-range missiles, Mr Gorbachev said after the Reykjavik meeting that he would henceforth accept only a package deal, made up of strategic weapons reductions, the elimination of INF in Europe and the abandonment by the US of SDI development and deployment.

Mr Gorabachev's about-face was widely welcomed in Europe as an important gesture to break the arms control stalemate. Mr Hans-Dietrich Genscher, the West German Foreign Minister, said the Soviet leader's proposal cleared the way for an agreement to abolish all US and Soviet medium-range missiles in Europe. Mr Genscher called for speedy negotiations in Geneva between the two powers to tie up an agreement on the issue.

In Brussels, Lord Carrington, Secretary-General of the North Atlantic Treaty Organisation (Nato), which has long urged Moscow to negotiate a separate INF accord, said Mr Gorbachev's proposal appeared to be "a substantial step forward."

A Foreign Office spokesman in London stressed that the new Soviet offer placed Mrs Margaret Thatcher, the British Prime Minister, in a particularly strong position to help move the INF talks forward during her visit to Moscow at the end of this month.

Mr Gorbachev said in his statement that "the Soviet Union suggests that the problem of medium-range missiles in Europe be singled out from the package of issues and that a separate agreement on it be concluded without delay."

He said the two superpowers should implement the outline agreement reached in Reykjavik under which the US would withdraw its Pershing-2 and Cruise missiles from Europe and Moscow would remove its equivalent weapons – mostly SS-20s – within five years.

The Soviet Union would be allowed to keep 100 warheads in the Asian part of its territory and the US would keep the same number on its home territory.

With a clear eye on Western European opinion, Mr Gorbachev said Moscow was ready for talks to reduce and to eliminate shorter-range "theatre" missiles in Europe. West Germany, in particular, has expressed concern over these missiles.

The need for a parallel agreement on shorter-range missiles, of which the Soviet Union has a far greater number than the US, was underlined by Nato ministers at their meeting in Brussels last December.

It is also clear that the new US proposal will cover shorter-range weapons as well as the need for strict verification procedures.

Mr Gorbachev's statement made clear that he still considered SDI to be a major obstacle to far-reaching arms control agreements. His proposal did not mean that he was dropping the Soviet linkage between curbs on SDI and sweeping cuts in strategic offensive weapons.

"The Soviet Union still considers it highly important to reach agreement on a substantial limitation and then elimination of strategic arms," he said.

"Of course, the conclusion of such

Continued on Page 16

Western military fears deal on medium-range missiles, Page 2; Editorial comment – Time to back Mr Gorbachev, Page 14

Brussels warns Japan on car export surge

BY CARLA RAPOPORT IN TOKYO AND WILLIAM DAWKINS IN BRUSSELS

THE EUROPEAN Commission warned yesterday that trade relations with Japan could worsen if Tokyo failed to curb a record surge in car exports to the EEC.

Sales of Japanese cars to the Community jumped by 38 per cent in January, compared with 12 months before, provoking trade authorities in Tokyo to warn Japanese makers to moderate car exports to Europe.

Officials in Brussels reiterated earlier warnings by Mr Karl-Heinz Narjes, the Industry Commissioner, that if Japan's Ministry of International Trade and Industry (Miti) failed to persuade car producers to moderate EEC exports, this could "pose some fundamental questions concerning our trade relations with Japan, which could stretch far beyond the auto sector itself."

They emphasised, however, that the Commission wants to give Miti another chance before considering whether to up its reaction. Japanese car sales to the EEC rose a record 19 per cent last year. After a warning by Miti in the summer, the car makers none the less slowed the rate of shipments markedly in the last quarter of 1986.

Car manufacturers in Tokyo yesterday stressed that the January increase reflected stocks replenishment, not a new assault on European markets. Toyota says it expects the pace of exports to EEC countries to slow again sharply in March and April.

Miti officials denied that they have set any export ceiling for Japanese car makers in Europe. "We have again warned them to moderate their sales, and that is all," said a Miti official yesterday.

The boom in sales to the EEC helped create a record in January for Japanese motor industry sales of 577,533 units. It was also a major contributor to Japan's large trade surplus in January. Shipments to European countries overall went up to 31.8 per cent to 213,000 units.

Sales to Japan's biggest market, the US, were up only 1.5 per cent to 272,000. EEC officials in Tokyo last year accused the Japanese of targeting Europe because the yen's appreciation against the dollar has been stronger than its rise against European currencies. EEC officials in Tokyo yesterday said they had no reaction to January's surge.

The January surge was particularly strong in West Germany, raising the possibility of trade restrictions from that country. West Germany is the only major European market not to impose restrictions on the Japanese.

Japanese cars drive into European road block, Page 4

Bosporus deal may go to UK

By David Barchard in Ankara and Hazel Duffy in London

TRAFALGAR House, the diversified UK engineering and construction group, is likely to win a contract to build a third bridge in Istanbul, Turkey, as long as a satisfactory financial package can be put together. The group has received a letter of intent from Mr Bedrettin Dalan, Mayor of Istanbul.

Two years ago, Trafalgar House's hopes of winning the contract to build the second Bosporus bridge were dashed when a consortium led by C-Itoh of Japan came up with better credit terms and a substantially lower price for the overall project.

A European solution may well be

Continued on Page 16

New defection hits Botha party

BY ANTHONY ROBINSON IN JOHANNESBURG

THE rising tide of defections from South Africa's ruling National Party gained further momentum over the weekend with the decision of the daughter of a former Nationalist member of Parliament to stand as an independent in the Afrikaner university town of Stellenbosch in the Cape.

The Stellenbosch constituency is next to Helderberg, where Dr Denis Worrall, the former Ambassador to London, is challenging Mr Chris Heunis, the Minister of Constitutional Development, in a three-cornered contest where the Conservative Party is also attacking him from the right.

Like Dr Worrall, the new independent candidate, Dr Esther Lategan, a local businesswoman, hopes to capitalise on the growing signs of intellectual, business and middle class revolt against the slow pace of reform and the increasingly autocratic style of President P. W. Botha.

Two more senior Stellenbosch academics announced their resignation from the National Party over the weekend following last week's failed attempt by Mr Botha, honorary president of the most prestigious Afrikaans university, to stem the haemorrhage of intellectuals during a meeting with leading academics.

With over two months to go before the whites-only election of May 6, the ruling party has not yet indicated how it intends to deal with the unexpected challenge from the left as well as the anticipated attack from the right.

But Professor Willem Kleynhans, a retired Afrikaner political scientist who broke with the party in 1955 in protest against the removal of coloureds from the electoral rolls, cautioned against over-estimating the possible impact of independents at the polls.

The track record showed that independents fared badly against established party machines and that unless the rebels formed such a party they could prove as ineffective as the rebels of 1955, he warned.

Meanwhile growing evidence that influential sections of the white electorate are pressing for negotiations for some form of power sharing which would bring blacks into central government is being watched with interest by black opposition elements.

The elections were originally dismissed as irrelevant by men such as Mr Oliver Tambo, the African National Congress (ANC) leader in exile, and those United Democratic Front (UDF) and other black opposition activists not in detention.

Last week Mr Murphy Morobe, a UDF spokesman, confirmed that the UDF was closely watching the elections as an indicator of how white attitudes had changed in response to growing black politicisation over the last three years.

Mr Morobe made his remarks shortly before addressing the annual congress of the black National Union of Mineworkers (NUM)

Mr James Motlatsi, the NUM president, called for the building of "firm, disciplined and effective alliances with the democratic organisations." The forging of closer union links with grass roots community organisations is seen as part of the re-thinking in black politics in response to the mass detention of black activists and the government's determination to use whatever force is necessary to break expectations of an imminent violent transfer of power.

Drive to end Shell's South African links, Page 4

Reagan address to nation crucial in survival fight

BY STEWART FLEMING, US EDITOR, IN WASHINGTON

PRESIDENT Ronald Reagan is widely perceived to be fighting for his political life in the wake of scathing criticisms of his conduct of foreign policy in the Tower report into the Iran/Contra affair.

However, his decision on Friday to replace Mr Donald Regan as White House Chief of Staff with former Senator Howard Baker is judged to have improved his chances of halting the downward spiral in his political fortunes.

Close political allies of the President are questioning whether Mr Reagan has come to terms with the challenge he faces if he is to restore his political credibility. Many think he must become more actively involved in policymaking and point to the speech he is scheduled to make later this week to the American people in response to the Tower Commission's criticisms as potentially the most important statement of his political life.

Former Republican Senator Paul Laxalt, one of Mr Reagan's closest political friends, said yesterday when asked whether the President should become more active and less detached from the details of policy making on key issues: "In this period and in these circumstances he is going to have to get his head and gut squarely into this operation."

However, he conceded that he did not think Mr Reagan was ready to admit that the Iran policy was "flawed" although he shared the widespread judgment that this was something he needed to do.

On Friday Vice President George Bush said for the first time that the Iran policy was wrong and that it had turned into an arms-for-hostages transaction, something the President has persistently denied.

The depth of Mr Reagan's problems were underlined yesterday in a Gallup poll which showed that the President's approval ratings had declined. A total of 53 per cent of Americans disapproved of the way he was handling his job, and a third believed he should resign.

Mr Howard Baker's appointment has been greeted with applause by all but the far right of the Republican party. He officially begins work as the new Chief of Staff today although he has already begun to take over the reins from his predecessor, Mr Regan. On Saturday two of his top aides, Mr Tom Griscom and Mr James Cannon, moved into the White House and participated in staff meetings to discuss the President's speech and his schedule.

A thorough house cleaning of many of the top White House officials who served under Mr Regan is expected, not only because of perceptions in Washington that they lacked political expertise but also

US Secretary of State Georg
Shultz arrived in Peking yester
day for a six-day visit aimed
consolidating Sino-US relatio
but armed with some potenti
questions which could embarra
his hosts over alleged arms sal
to Iran. US officials said he is a
so likely to push the sensitive i
sue of the recent Chinese expu
sion of a US journalist for allege
spying. Nevertheless, Mr Shul
and Chinese Foreign Minist
Wu Xueqian delivered general
positive speeches at last night
welcoming banquet. Page 16

because of the Tower Commissi
finding that the President's se
advisers and staff and failed hi

Whether the shake-up in the
ministration will go further is be
hotly debated. There is, for ex
ple, a growing expectation that
White House will withdraw
nomination of Mr Robert Gates
succeed Mr William Casey as di
tor of the Central Intelligence Ag
cy.

However, senior Republic
such as Senator Robert Dole
carefully avoiding passing ju
ment on whether cabinet memb
such as Mr George Shultz, Se
tary of State, and Mr Caspar We
berger, Defence Secretary,
where also criticised by the To
report, should quit.

Mr Baker, a 61-year-old exp
enced in both foreign and dome
policy issues and is perceived t
capable of building bridges to Re
blicans and Democrats on Ca
Hill, faces some pressing decisi
in his first week in office.

One which he might not have
ticipated is what the Presid
should say in response to So
leader Mr Mikhail Gorbachev's
arms control initiative.

Dr Henry Kissinger, the for
Secretary of State, said on Fri
that ending the debate on arms c
trol between what Dr Kissinger
scribes as the "warring princip
ties" of the State Department
the Defence Department must
one of the President's priorities.
active arms control policy is see
Washington by all but the conse
tive right as a necessary elemen
the President's political agenda
his last two years in office.

So far as the speech itself is c
cerned, a key question is how
the President will go in conced
that his Iran policy was flawed a
whether he will, as many of
friends are urging, apologise for
mistake.

Reagan's dangerous dream, Page 15

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Gen Bernard Rogers, Nato Commander, talks to David Buchan, Page 10

Robert Mauthner on the Soviet leader's surprise offer over nuclear forces

Gorbachev U-turn on European arms cuts

MR MIKHAIL GORBACHEV'S offer at the weekend to negotiate a separate agreement on the elimination of intermediate range nuclear forces (INF) in Europe is a major reversal of recent Soviet policy, though it is not a new proposal.

Before last October's abortive Reykjavik summit between President Reagan and Mr Gorbachev, Moscow had indicated frequently that it was prepared to do a separate deal on INF and its position remained ambiguous even in the immediate aftermath of that traumatic meeting.

During a tour of Western capitals in the wake of the summit, Mr Viktor Karpov, the former chief Soviet arms negotiator in Geneva, since replaced, still gave the impression that a separate INF agreement was on the cards.

It was only subsequently that Mr Gorbachev confirmed the stance, which he had adopted at Reykjavik, that a substantial reduction of strategic offensive weapons, an agreement on the restrictions to be placed on President Reagan's space-based defensive system (SDI) and a deal on medium-range nuclear missiles must be treated as an indivisible package.

That has been the Soviet position until Mr Gorbachev's surprise announcement on Saturday. In the meantime, however, the Western allies have been able to put some order in their own house, after the disarray in the Nato camp when the sweeping proposals tabled by President Reagan at Reykjavik became known.

The idea that western Europe might, within 10 years, be deprived of an effective strategic nuclear umbrella and medium-range missiles, coupled with a dangerous inferiority in conventional forces, sent a shiver down the spines of governments.

Only a month after Reykjavik, Mrs Margaret Thatcher, the British Prime Minister, packed her bags for the US with the specific purpose of pinning down President Reagan on what he was prepared to offer the Russians and to make sure European interests were safeguarded.

Out of that visit to Camp David came a joint statement which has served as the blueprint for the Western arms control position since. The two leaders confirmed that Nato's strategy of forward defence and flexible response would continue to require effective nuclear deterrence and that reductions in nuclear weapons increased the importance of eliminating the disparities in conventional forces.

On the specific issue of nuclear arms control, any mention of a total elimination of strategic offensive weapons within 10 years—an idea floated briefly in the euphoric early stages of Reykjavik—was carefully avoided.


Mrs Thatcher: key role

Instead, President Reagan and Mrs Thatcher agreed on the following arms control priorities: a 50 per cent cut over five years in US and Soviet strategic offensive weapons; an agreement on intermediate range nuclear weapons with restraints on shorter-range systems and a ban on chemical weapons.

These priorities were endorsed and fleshed out at the Nato ministerial meeting in Brussels last December, when the allies expressed their full support for the envisaged elimination of US and Soviet longer-range INF in Europe and their limitation to 100 warheads in Soviet Asia and the US.

At the same time they stressed that an INF agreement must not neglect Soviet superiority in shorter-range INF missiles and must provide for a commitment to follow-on negotiations in this field.

Whatever the reservations and doubts they may have had about an INF agreement during the post-Reykjavik period of confusion, Nato's European members are now on record as favouring the elimination of medium-range nuclear weapons in Europe—the so-called zero option.

The fact that Mr Gorbachev has said that he is prepared to begin talks immediately on "other theatre missiles" with a view to eliminating them, is an attempt by the Soviet leader to dispel the Europeans remaining fears about Moscow's superiority in short-range nuclear weapons.

The reasons for Mr Gorbachev's change of heart can only be a matter of speculation, but it does appear to indicate a sense of urgency dictated by the domestic situation in the US.

Western analysts of Soviet policy have felt for some time that Mr Gorbachev was anxious to do a deal quickly with President Reagan and not wait for his successor for two main reasons.

An arms control agreement would have to be concluded by this summer if it was to be ratified before the presidential election in 1988 and not become the subject of electioneering.

A new president would take some time before undertaking serious negotiations on arms control. An agreement would thus be delayed by something like two years if it were not reached within the next few months.

At the same time, Mr Gorbachev might have calculated that President Reagan's troubles over the arms-for-Iran affair would make him more anxious to bow out with a major foreign policy success, such as an arms control agreement.

The disadvantage of Mr Gorbachev's latest proposal, from his point of view, is that it has taken the spotlight away from the demand that the US should abandon its intention to develop, test and eventually deploy space weapons.

Now that Mr Gorbachev has broken one of the links in his Reykjavik package the pressure on Washington to hold back on SDI is bound to ease.

Western military fears deal on medium-range missiles

BY DAVID BUCHAN, DEFENCE CORRESPONDENT

BENEATH the overwhelmingly strong political pressures on the West to embrace the new Soviet offer of an early and separate agreement eliminating medium-range nuclear weapons from Europe lie growing anxieties about the military consequences of such a deal.

These anxieties, harboured by the Nato military in general and by one country in particular, West Germany, have grown as the prospect of the West's own zero plan of 1981 has come nearer realisation.

Gen Bernard Rogers, the top Nato commander, summed up the concern last week when he said: "If medium-range missiles were cut to zero, and nothing were done to reduce the Soviet superiority in shorter-range nuclear and conventional forces, then we would be worse off than in 1979"—the date Nato decided to deploy the medium range Cruise and Pershing 2 missiles.

Whatever happens to the nuclear and conventional balance, Gen Rogers and some others (not only in the military) would like to keep in Europe some medium-range weapons capable of hitting Soviet soil, which at present only Cruise and Pershing missiles can do.

> "The argument is that a deterrent must threaten the Soviet Union itself and that Nato's flexible response strategy requires weapons able to hit Soviet soil, short of invoking the main US — or British or French — nuclear arsenals."

Their argument is that a deterrent must threaten the Soviet Union itself and that Nato's flexible response strategy requires weapons able to hit Soviet soil, short of invoking the main US (or British or French) nuclear arsenals.

But in reality this argument has lost out to the pre-eminent political interest in taking the only arms control deal at present on offer.

Without medium range missiles on either side, the West would still face a four or five to one inferiority in shorter-range missiles (defined as less than 1,000 kilometres).

It would have around 100 nuclear-capable Lance missiles operated by various Nato countries and 72 Pershing-1 missiles in the hands of the West German air force, as against about 900 shorter-range missiles on the Soviet side.

Aware of growing Western concern on this score, Mr Gorbachev proposed at the Reykjavik summit a freeze on shorter-range weapons at their current level and subsequent negotiations to reduce them.

He also promised in his weekend statement that as soon as a medium-range missile accord was signed, he would move out of East Germany and Czechoslovakia SS12/22 missiles put there in 1983 as a counter to Cruise and Pershing.

If Mr Gorbachev's promises to date could be translated into a firm and verifiable agreement, this would probably satisfy most Nato governments, but not West Germany.

The latter, on Nato's front line, is insisting that a medium-range missile accord must include a firm commitment to follow-on negotiations to reduce not only Soviet SS12/22 and SS-23 missiles but also some 600 Scud B rockets with a range down to around 300 kms.

Other Nato governments, Britain included, feel that such a condition may impossibly complicate reaching the main goal of a medium-range missile accord. Other Nato countries also happen not to be directly threatened by the Scud.

A Nato-Warsaw Pact conventional balance would be far harder to negotiate. The issue, unlike that of shorter-range nuclear weapons, has not been formally tied by Nato to a medium-range missile accord.

But the Soviets would have to show clearly their willingness to make progress in the new Vienna discussions about reducing conventional forces from the Atlantic to the Urals, if they are to ease the Western military's deep qualms of being left without their "nuclear underwear," in the face of heavy Soviet conventional superiority.

W Europe welcomes Soviet initiative

WESTERN EUROPE yesterday welcomed Mr Mikhail Gorbachev's offer to move ahead with a separate agreement on intermediate range missiles as a major breakthrough in the superpower arms control stalemate, Reuter reports.

Mr Hans-Dietrich Genscher, the West German Foreign Minister, reflected a feeling of satisfaction and relief among the allies, saying the proposal cleared the way for an agreement to abolish all US and Soviet medium-range missiles in Europe.

In a statement, Mr Genscher called for speedy negotiations in Geneva between the superpowers to tie up an accord.

In Brussels, Lord Carrington, secretary-general of Nato, which has urged Moscow to negotiate a separate INF accord, said Mr Gorbachev's proposal appeared to be a "substantial step forward."

In Britain, a Foreign Office spokesman said Mrs Thatcher, who is due to visit Moscow at the end of the month, had been placed in a particularly strong position to help move the superpower talks forward.

Any removal of medium-range missiles would directly affect West Germany, Britain, Italy and Belgium which have already stationed 316 US cruise and Pershing-2s under a 1979 Nato deployment decision.

The Netherlands has pledged to start stationing 48 cruise missiles next year. But the Dutch Defence Minister, Mr Wim Van Eekelen, asked in a radio interview yesterday if the chances of deployment had receded with the Gorbachev offer, replied: "Yes, I think so."

Mr Gorbachev, in a shift in Soviet policy, said on Saturday night that Moscow was ready to negotiate a separate agreement with the US to remove medium-range missiles in Europe.

Apart from removal of the cruise and Pershings in Western Europe, such an agreement — known as the "zero option" — would mean the abolition of about 270 Soviet SS-20 missiles directed at the West, Nato says.

Nato diplomats expect the focus of the Euromissile debate to turn now to the question of Soviet SS-21, 22 and 23 short-range missiles in Czechoslovakia and East Germany.

Funaro sees Brazil trade surplus of $8bn this year

BY STEWART FLEMING, US EDITOR IN WASHINGTON

MR DILSON FUNARO, the Brazilian Finance Minister, is expecting his country to achieve a $8bn (£5.7bn) trade surplus this year.

But he says that the duration of Brazil's suspension of interest payments on its medium- and long-term debt will depend on what financing proposals its creditors can offer.

Speaking in Washington shortly before he left for Europe, where he is having meetings with finance ministers in London, Paris, Bonn and Rome, Mr Funaro insisted that Brazil had already increased taxes to curb excess demand.

He added that the impact of this is already being felt in the economy. "I am really worried we could go into recession," he said.

He suggested that for the next two to three months, relative prices needed to be left free to adjust. But he conceded that the increase in Brazil's inflation had been a "disappointment," adding: "Now we are trying to fight against inflation again."

Mr Funaro insisted that a further IMF adjustment programme does not provide the answer to Brazil's problems.

Brazil needed a financing agreement which would allow it to plan ahead for three or four years. "We created a mechanism to live with the debt crisis. Now we need one to get out of the debt crisis," he said.

Ivo Dawnay writes: Brazil finally buried the last remnants of its anti-inflationary cruzado plan at the weekend, kicked off its shoes and celebrated the old traditional verities — carnival and hyper-inflation.

Exactly a year to the day after the introduction of the de-indexing, price freezing plan, the government moved to inflation-link the value of its treasury-issued paper and awarded the country a 42 per cent wage rise by lifting the key minimum monthly salary from Cz 965 to Cz 1,368.

A recent revision of forecasts for February inflation, down from 20 per cent to 12 per cent, has provoked a dramatic fall in interest rates, with the central bank marking down its overnight bills from 30 per cent to 18.5 per cent a month.

The lower inflation figure for February looks set, however, to be sufficient to trigger another automatic pay increase of 20 per cent in March. This means that since the new year, earnings will have risen by some 70 per cent.

Looked at in dollar terms, however, the rise is less dramatic, with near-daily devaluations of the cruzado leaving the monthly minimum salary, at the official exchange rate, up from $61 to $82.

Jitters over the suspension of the country's interest commitments on $68bn of longer-term debt to commercial creditor banks were, however, in evidence in New York.

Armed police help move to take control of Rio bank

BY IVO DAWNAY IN RIO DE JANEIRO

OFFICIALS of Brazil's Central Bank have succeeded in wrestling control of the state bank of Rio de Janeiro, Banerj, with the use of hammers, skeleton keys and federal police with machine guns.

After 11 hours of resistance ordered by the opposition governor, Mr Leonel Brizola, branches of the bank were open normally on Saturday under the wary eyes of senior central bank officers.

The extraordinary episode began when the Brazilian Government declared last Wednesday that central supervision would be imposed on five state banks believed to be close to insolvency.

The banks of the states of Rio de Janeiro Ceara, Maranhao, Mato Groso and Santa Catarina are said to be indebted to the tune of about Cz 46bn (£1.49bn) equivalent to about four months' interest payments on Brazil's total foreign debt.

Rio's state bank, controlled by Mr Brizola, accounts for about Cz 26bn and has been widely criticised for spendthrift advertising campaigns, used to boost the governor's party during elections last November.

Row possible over Pakistan bomb claim

A DIPLOMATIC row between the US and Pakistan is possible after a confused denial to a newspaper claim in a interview with Pakistan's top nuclear scientists that his country has the capacity to make an atomic bomb.

Dr Abdul Qader Khan, who runs a uranium enrichment plant outside Islamabad which has not been visited by international inspectors, has denied the comments attributed to him by the Observer in London. But his explanation is at odds with the comments of a Pakistani journalist who was also at the interview.

In the Observer article, written by Mr Kuldip Nayar, former editor of the Delhi-based Statesman newspaper, Dr Khan was quoted as saying that Pakistan had the bomb. It was producing highly enriched uranium suitable for nuclear weapons, and was able to reprocess plutonium, another potential nuclear explosive.

He said Pakistan would not need to test a bomb, except in a laboratory.

Dr Khan said from Islamabad yesterday that he had only met Mr Nayar because he was brought to his home by a Pakistani newspaper editor who was delivering a wedding invitation. Their conversation had only lasted "two or three minutes."

Dr Khan denied that he had made any claim about having a bomb or weapons-grade uranium or plutonium.

However, a Pakistani newspaper editor, Mr Mushahid Hussain, also present at the interview, backed up the newspaper claim that the meeting lasted an hour. "Such meetings cannot take place without prior notification," he said.

At this point the telephone line went dead; calls back gave an engaged tone.

Without proper clarification over the issue, US aid to Pakistan — worth more than $500m per year — could be cut off. Until now Congress has accepted the assurances of President Reagan that Pakistan does not have a bomb, thus allowing the country to be bolstered against the Soviet presence in neighbouring Afghanistan.

US law prohibits aid to countries developing nuclear weapons. Pakistan's controversial nuclear programme has only avoided this stricture by a special amendment to the law. An open declaration of having a bomb would breach this provision.

Haughey's vote problems grow

BY HUGH CARNEGY IN DUBLIN

MR CHARLES HAUGHEY'S difficulties in securing election as Prime Minister when the Irish parliament resumes on March 10 after last month's general election, increased at the weekend when the leftist Workers' Party decided to oppose his nomination.

The Workers' Party decision means that the number of deputies set to vote against Mr Haughey is equal — at 81 — to the number of seats held by his own Fianna Fail Party.

The outcome will now depend on who becomes Speaker and on how a handful of independent Deputies cast their votes.

Mr Haughey remains the favourite. No other party leader has any chance of success. But if he were defeated or there was a tie, a serious dilemma would arise which might have to be resolved by his replacement as Fianna Fail leader—or another election.

Fianna Fail has offered the Speakership to the incumbent, Mr Tom Fitzpatrick, a member of outgoing Prime Minister, Dr Garret FitzGerald's Fine Gael Party.

If he accepts, the opposition to Fianna Fail would be reduced by one. But Mr FitzPatrick is under strong pressure to refuse the offer from within Fine Gael.

If Mr FitzPatrick declines, the Speakership would almost certainly go to Mr Sean Tracey, one of the independents. In that case, everything would depend on how the three remaining independents voted.

Mr Jim Kemmy, a Socialist, has indicated he would oppose Mr Haughey. Equally, Mr Neil Blaney, a former Fianna Fail minister, is likely, though not certain, to support him.

That would leave Mr Haughey's fate in the hands of Mr Tony Gregory, a leftist from Dublin

Moslems held after Upper Egypt clashes

By Tony Walker in Cairo

THIRTY-TWO Moslem extremists have been arrested after an outbreak of sectarian conflict in Upper Egypt.

Disturbances between Christians and Moslems occurred in two centres — in Beni Suef, about 70 miles south of Cairo, and in Sohag, some 300 miles south of the capital.

According to Cairo newspaper reports, there was conflict in Beni Suef, an industrial town on the Nile, after rumours spread that Christians had spray-painted the sign of the cross on the cloaks of Moslem women.

In Sohag, 19 people were arrested after 2,000 demonstrators tried to burn two Coptic Christian churches after a Mosque was destroyed, reportedly by an accidental fire.

Security forces in Sohag are said to have used tear gas and fired shots in the air to disperse demonstrators

Peres fails to force Cabinet showdown

BY ANDREW WHITLEY IN JERUSALEM

MR SHIMON PERES, the Israeli Foreign Minister, yesterday failed to win sufficient backing from his own Labour Party to bring the crisis within the national unity government over a proposed Middle East peace conference to a head, as he had hoped.

With little concrete to show from his two-day trip to Cairo last week, the Labour Party leader was unable to force a decisive confrontation on the issue at yesterday's Cabinet meeting.

Mr Peres nevertheless insisted later that he would continue to pursue moves to bring about an international conference this year.

A majority in the politically evenly divided cabinet agreed yesterday with Mr Yitzhak Rabin, the influential Labour Defence Minister—a long-standing opponent of Mr Peres—that the timing was not ripe for an all-out crisis.

The issue could be safely postponed, it was agreed.

Hong Kong to raise prime rate

HONG KONG's leading banks are raising their prime lending rate by one percentage point to 6 per cent today as speculative pressure on the exchange rate link between the Hong Kong currency and the US dollar has subsided, David Dodwell reports from Hong Kong.

The rate increase comes just five days after Mr Piers Jacobs, Hong Kong's Financial Secretary, used his maiden budget speech to emphasise the Government's commitment to the linked rate of HK$7.8 to the US dollar.

The local prime rate was cut by 1.5 points on January 15 to 5 per cent, the lowest rate for more than a decade, folowing a period of intense speculation that pressure from the US Administration to adjust the link would not be resisted by the colonial government.

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Indian defence costs push up budget deficit

BY JOHN ELLIOTT IN NEW DELHI

INDIA's budgetary deficit has risen 123 per cent above original forecasts to Rs82.85bn (£4.12bn) in the past year.

This follows a 16 per cent unplanned rise in defence spending, which is to grow by another 23 per cent next year, plus big spending increases in other areas including the introduction of big pay rises for government employees.

Mr Rajiv Gandhi, the Indian Prime Minister, disclosed the figures at the weekend when he announced his country's annual budget, which produced few surprises but included excise and other boosts for industrial modernisation and help for the rural poor.

Mr Gandhi has been assured by financial advisers that the deficit will not be inflationary, but he said the figure was "high and I do not like it." He pledged that there would be no increase above a planned deficit of Rs56.88bn in the coming year.

After next year's 23 per cent increase, defence spending will total Rs125.12bn, almost 20 per cent of the country's total 1987-1988 budget of about Rs630bn.

The increases are needed to pay for modernisation of the armed forces and for heavy mobilisation of troops in response to what is regarded as a military threat from Pakistan.

Mr S. Venkitaramanan, Finance Secretary, said yesterday: "The answer to why there is an increase in our defence budget has to be found in the defence budgets of other countries." He was referring indirectly to heavy defence spending by Pakistan, which is subsidised by the US.

Mr Gandhi told the Indian parliament on Saturday: "We shall spare no effort nor shrink from any sacrifice where our national security is concerned." The borders could "not be left unguarded," he said later.

Although there was considerable political and newspaper criticism yesterday of what was widely regarded as an uninspiring and possibly risk-oriented budget, there were no attacks on the defence spending which has risen by 150 per cent in the past five years.

In the same period, total non-development and current expenditure (called non-plan expenditure) rose by 120 per cent. But defence still accounts for less than 5 per cent of gross domestic product.

The jump in the overall deficit of Rs 45.82bn, from a planned Rs 37.03bn to Rs 82.85bn, was caused mainly by the Rs 14.66bn defence spending increase and about Rs 15bn on government pay rises in addition to Rs 12bn to cover the cost of food buffer stocks which in the past has been borne by the Food Corporation of India.

The other main expenditure burden causing concern is interest on government borrowings, which totalled Rs 95.50bn in the past year, compared with a budgeted figure of Rs 87.50bn. The planned figure for next year is Rs 108.50bn.

Mr Venkitaramanan yesterday denied rumours that the Government was approaching either the International Monetary Fund or the World Bank for loans to offset this expenditure.

The deficit is now about 2.5 per cent of gross domestic product, according to Government estimates, although some economic observers put the real figure as high as 10 per cent.

Steven Butler and Chris Sherwell preview Mr Shevardnadze's latest trip

Soviet diplomacy's Pacific test

THE SOVIET Union's Pacific diplomacy will receive another important boost – as well as a big test – when Mr Eduard Shevardnadze, the Soviet Foreign Minister, leaves Moscow today for a trip that will take him to Thailand, Australia, and Indonesia before he goes to Communist Indochina, where he will visit Vietnam, Kampuchea, and Laos.

Mr Shevardnadze will be the most senior Soviet official to visit the region in years and his visit follows Mr Mikhail Gorbachev's declaration of Soviet intentions to expand its role in the Pacific region, made last July.

The trip comes at a time when the Soviets have been moving on a range of seemingly intractable issues that are of varying concern to the nations Mr Shevardnadze will visit – from the occupation of Afghanistan and the Sino-Soviet border dispute to disarmament and the release of dissidents.

The steady build-up of a Soviet military presence in the Pacific began well before Mr Gorbachev came to power, and it has been followed by high profile efforts to boost trade and other relations. This has caused concern over what Soviet intentions are, especially as the military and political deadlock continues in Indochina, where the Soviet-backed Government in Vietnam has some 140,000 troops in Kampuchea.

The region's nations have tried to resist Moscow's overtures for closer political ties until these issues are resolved, but Soviet influence is becoming hard to ignore.

Moscow recently signed the South Pacific Nuclear Free Zone Treaty drawn up by the South Pacific Forum Nations, including Australia and New Zealand. China also signed the treaty, but France and the US refused, and Britain is expected to follow suit. This has irritated Australia, which believes the treaty is the best the US can get.

The Soviets concluded a fishing rights agreement with Vanuatu, formerly the New Hebrides, allowing port facilities at Vila, the capital, and possible landing rights for aircraft. Many see this as the thin end of a Soviet wedge aimed at penetrating the region, which Australia has recently named as a high priority in its revised defence strategy. The Soviets are talking with other island nations.

Washington, by comparison, is seen as slow on the uptake and somewhat insensitive toward these nations' fishing rights concerns although agreements were eventually reached.

The Soviet initiatives come against a backdrop of regional ferment. France has created unhappiness over its colonial policy toward New Caledonia and its refusal to halt nuclear testing.

Last year's withdrawal by New Zealand from the Anzus defence alliance with the US and Australia further complicated matters. The split occurred because of New Zealand's refusal to allow port visits by nuclear-armed or powered ships, and this has created fears that the Soviets could exploit weakness in regional security.

Australia will want to establish what Soviet commercial intentions are, since Moscow has a record of using commercial activities to gather intelligence to promote wider political interests. Mr Shevardnadze can none the less expect a cordial reception in Canberra because the Soviet Union is becoming an important trade partner.

Mr Eduard Shevardnadze

In Jakarta and Bangkok the question of Vietnam's continued occupation of Kampuchea will head the agenda. Dr Moctar Kusumaatmadja, the Indonesian Foreign minister, has served as an envoy between Hanoi and the Association of Southeast Asian Nations (Asean).

Mr Shevardnadze's stop in Jakarta will be preceded immediately by a visit from Mr Natwar Singh, the Indian Minister of State for External Affairs, who is said to be involved in a new initiative to resolve the Kampuchean conflict.

It is difficult to imagine what any such initiative could offer, since the key problem is Vietnam's perception of its security interests. A recent increase in Soviet aid to Vietnam coupled with continued public support for Vietnam's position on the Kampuchean question hardly seems the precursor to Soviet pressure on Vietnam to resolve the conflict on terms Hanoi is reluctant to accept.

Mr Shevardnadze none the less will arrive at the tail end of his trip in a Communist Indochina that has seen dramatic political changes in recent months. He will meet a new, more pragmatic Vietnamese leadership that has set its sights on leading Vietnam out of poverty by reforming the economy.

Laos is trying to improve relations with Thailand and China, and to open avenues to the West; Kampuchea is trying to put a more acceptable international face on the government.

These changes will eventually lead to evolution in the economic and political environment in Indochina, and this will alter chances for any settlement.

None of this adds up to the possibility of a dramatic Soviet diplomatic breakthrough stemming from Mr Shevardnadze's trip. But it follows a pattern of more aggressive Soviet diplomacy throughout the world since Mr Gorbachev took power.

Soviet initiatives in Asia had been characterised by a clumsy parade of military hardware followed by diplomatic ineptitude that prevented the Soviets from exploiting opportunities.

The Soviets are beginning to show more sensitivity to the concerns of the region's nations. Even if Mr Shevardnadze has nothing to give away on this visit, the Soviets are likely to be better positioned to promote their interests in South-east Asia and the Southern Pacific, whatever the lingering doubts in nations where he visits.

Norway and Sweden to form joint group to study gas market

BY SARA WEBB, STOCKHOLM CORRESPONDENT

NORWAY and Sweden are to set up a joint working group to study developments in the natural gas market.

Sweden is looking for an alternative to nuclear power (which the Government is committed to phasing out by the year 2010), so the decision to form a working group could pave the way for a deal between the two countries, with Sweden agreeing to buy its natural gas from Norway.

The plan follows meetings at the end of last week between Mrs Birgitta Dahl, the Swedish Environment and Energy Minister, and Mr Arne Oien, the Norwegian Oil and Energy Minister.

The working group will aim to keep both ministers informed of developments and to strengthen contacts between them.

Mrs Dahl stressed that there was no firm commitment to buy from Norway. "We will buy if the price is right. We are still holding discussions with other suppliers."

Natural gas accounts for less than 1 per cent of Sweden's energy needs and is used mainly in industry.

Sweden started to import gas from Denmark in 1985 and has a well developed network in the south west of the country, which it plans to extend.

However, because the Danish suppliers have refused to lower natural gas prices in line with the fall in oil prices, Sweden has started to court other suppliers, namely Finland, the Soviet Union and Norway.

The Norwegians want to sell to Sweden gas from the Haltenbank field – thought to contain 300bn-350bn cubic metres. This could be used in industry, and for heating and electricity production.

Mr Oien said it would only be commercially viable for Norway if Sweden agreed to buy at least 4bn cubic metres a year. Deliveries could start about 1995.

The Swedish Government still has to work out its energy policy and decide when and how it will replace nuclear power. "We must take a policy decision during the spring about the role of natural gas in the future," Mr Dahl said.

Last October an energy council panel of experts produced a report and recommendations on the consequences of phasing out nuclear power before the year 2010 – the date set by the 1980 government referendum.

However, the Government has vacillated over presenting its own proposals and seems unlikely to present its policy before mid-May.

Its task is not easy. Representatives of Swedish industry have warned that by closing down nuclear reactors before 2010, Sweden will lose its competitive edge. The iron and steel, pulp and paper, and chemicals industries would be hit by the increased electricity costs.

The issue has divided, the ruling Social Democrat Party.

Manila in bid to resolve rescheduling deadlock

BY RICHARD GOURLAY IN MANILA

MR JAIME ONGPIN, Philippines Finance Minister, will arrive in New York today for debt talks, with a novel proposal to resolve a pricing deadlock that has blocked rescheduling of about $9.3bn (£6.6bn) of principal since November last year.

Mr Ongpin said the 12-member committee of creditor banks would be given the option of either lowering the interest spread over the London interbank offered rate that the Philippines will pay, from 1⅞ per cent to ⅞ per cent, which the banks have already flatly rejected, or accepting the "possible alternative."

The alternative appears to involve a replacement of existing debt with zero coupon bonds priced at a discount that reflects not only the country's current credit rating in the secondary market but also an interest spread considerably higher than ⅞ per cent.

The bonds, which would be redeemable at par on maturity, effectively turn the interest due into medium-term debt.

Mr Ongpin would not confirm the details before leaving Manila. However, he said the International Monetary Fund, the World Bank and the US Federal Reserve Board have seen his plan and "generally positively received (it)."

We announce with deep sorrow

the death of our friend and Advisory Director

SIDNEY BLAXILL

MORGAN STANLEY GROUP INC.

Japanese car makers are being warned on sales to the EEC, William Dawkins writes

Japan drives into European roadblock

EEC INDUSTRY officials are studying proposals by European car makers to freeze Japanese imports until Tokyo substantially opens up its own car market.

Senior representatives of Europe's major car companies will with the next two weeks meet Mr Karl-Heinz Narjes, the European Industry Commissioner, to discuss possible measures to hold off a record surge in Japanese car and light commercial vehicle sales to the Community.

The industry is outraged by a 19 per cent expansion last year in Japanese car sales to the EEC, bringing their market share to a new high of 1.36m units, or 11.7 per cent.

Japan's Ministry of International Trade and Industry (Miti) warned car makers a second time last week to moderate sales to the Community, following a 58 per cent jump in exports to Europe in January.

Mr Narjes wants to give Japan another chance — Miti issued a first warning to its car makers last summer — before raising the temperature of already vexed trade relations between the EEC and Tokyo. But the European car makers argue that time is running out.

They warn in a confidential white paper delivered to the Commission — their first joint position on the industry's future since 1981 — that if nothing is done, Japanese car sales to the EEC could climb to 2m units annually within the next two years, at a time when demand is expected to stagnate.

Up to 100,000 jobs in Europe's car and components industry could be lost as a result, warns the document, which is the work of the CCMC and CLCA, the two main EEC car industry lobby groups.

How much of this is standard rhetoric from a car industry that is perennially worried about the Japanese threat is hard to say.

Yet there is one new element. For the first time, they are linking any moves to moderate Japanese imports to the gradual abandonment of national barriers to free trade in motor vehicles within the EEC.

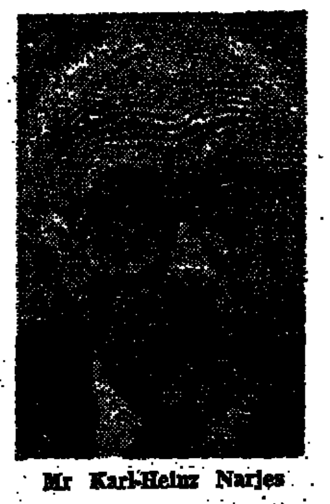
If the EEC helps Community car makers by holding off Japan for a few years, they are saying, they will support moves to open up markets at home.

The Commission is a long way from finalising its reaction, but Mr Narjes has already said during a debate on a separate car industry report in the European Parliament that there is no chance of taking Community action on top of existing national barriers to car imports.

Commission officials welcome the paper's plea to remove barriers to free competition such as price controls in Belgium and Luxembourg, high taxes in Denmark and Greece and the UK's special car tax, but feel that they do not go far enough.

There is also a body of opinion in the Commission that would like to see the industry use the protection afforded by an import freeze to tackle the 20 per cent over-capacity that contributes to its lack of profitability.

The car makers are asking for Japanese car and light commercial vehicle imports to be held at 1.05m units, representing around 10 per cent of the EEC market, until such time as European sales to Japan have risen from their 1986 level of 2 per cent of the market to 5 per cent.



Mr Karl-Heinz Narjes

In short, they want the equivalent of half of Japan's market share in the EEC. Depending on future growth rates, that would represent 300,000 to 500,000 units, a roughly ten-fold increase on the EEC's 1985 score of 48,000 cars sold in Japan.

Among the options being considered by Commission trade experts are punitive duties on any increase in Japanese car sales above their present level, or a voluntary restraint agreement.

But the paper warns: "In the event of Japan failing to make the appropriate adjustments . . . it may prove necessary to raise the fundamental question of whether the difficult problem of the Japanese trade imbalance can any longer be satisfactorily resolved within the confines of the General Agreement on Tariffs and Trade."

Japan appears resolved to encourage domestic demand for its goods instead of relying on exports to support its economy, Mr Jean-Claude Paye, Director General of the Organisation for Economic Co-operation and Development (OECD), said Reuter reports from Tokyo. Mr Paye has been in Japan for the past three days exchanging views on problems confronting the world economy and the role of OECD.

"I am leaving Tokyo with a clear impression that there is a strong resolve on the side of the Japanese authorities to go on as quickly as possible with stimulation of domestic activities and domestic demand," Mr Paye added.

In addition, the car makers are asking for measures to ensure that Japanese assembly plants in the EEC use an adequate—but unspecified—level of local content and make use of European research and development.

This concern is already being dealt with in part by a controversial Commission proposal to extend anti-dumping duties to products made in the EEC from a large proportion of cheap imported parts.

However, the paper argues that aid policy should also be used to put pressure on Japan to Europeanise EEC assembly plants.

"In the event that such investments in Europe are supported with public funds, it must be guaranteed that such enterprises will generate . . . job opportunities in the EEC and will integrate their operations fully into the European motor industry," it says.

The car makers deny that all this amounts to a plea for protectionism, rather that they are seeking a tough response to "predatory" Japanese trading practices.

These, they allege, include "reverse dumping," whereby Japanese car makers dump cars on their own market to keep imports at bay, and a careful timing of exports to the EEC so that sales build up dramatically at the most sensitive times of the year, such as the spring buying season.

In any case, West Germany is unlikely to accept a protectionist stance in view of the financial health of its own car industry.

As provider of 50 per cent of EEC car sales to Japan and the only car market in the Community not to have its own barriers to vehicle imports, it has already indicated to the Commission that it opposes any official regulation fixing Japanese sales levels.

That does not mean Bonn is against moderation of Japanese imports. It has suggested to the Commission that it would support pressure on Miti to impose tougher controls on Japanese car makers, possibly involving regular monitoring of exports to the EEC.

The fact that the January import surge was especially strong in West Germany might well encourage it to fall closer in line with more protectionist member-states.

Italian nuclear power moratorium likely

BY JOHN WYLES IN ROME

A MORATORIUM on the construction of nuclear power stations in Italy looks likely following the predicted failure of last week's four-day national energy conference to change a great many hearts and minds in the political establishment.

Such a standstill would be less the result of arguments heard in more than 50 speeches to the conference than a papering over of conflicting positions between all of the main parties.

Unexpectedly, the conference did achieve one significant change of view — that of the Radical Party leader, Mr Marco Pannella.

In an announcement which upset many of his 10,000 party members and even more environmentalists who had regarded him as an ally, Mr Pannella announced at the end of last week that he could accept the continued operation of "two or three" nuclear stations.

This was an important signal to the bigger parties that the radicals would not seek to undermine a strategy which maintained the nuclear status quo.

While the Socialists and the Social Democrats have hardened their positions and are now in favour of a total withdrawal from nuclear energy, a standstill on future construction remains the most likely basis of agreement with the Christian Democrats and the small lay parties.

The justification would be the need to wait for a few years to see whether a new generation of "intrinsically safe" nuclear plants may become available. Expert evidence to the conference claimed that such a design may be more than a decade away.

Italy has three nuclear plants operating and two more under construction.

The likelihood is that the oldest of the existing plants, the Magnox design at Latina, will be scheduled for closure, and construction halted of the unit at Trino Vercellese. Commissioning would go ahead of the nearly-completed plant at Montalto.

It remains to be seen how long it will take the parties to reach an agreement along such lines.

The issue will feature in the negotiations on policies to be pursued by any Christian Democrat-led government which can be formed after the Prime Minister, Mr Bettino Craxi, resigns tomorrow.

Last week's conference pointed up the need for a much more energetically pursued energy policy, whatever the final choices made about sources.

A brief summary of the discussions prepared by the chairmen of the conference's three preparatory committees which was published yesterday, bluntly warns of a 10,000 MW shortfall in electricity supply by 2000 unless new power stations are constructed.

The report suggests that diversification out of oil and into a greater use of coal and nuclear power should be the preferred solution.

But a national policy should also seek to promote energy saving and to put a much higher premium on environmental and safety concerns the three chairmen say.

Drive to end Shell links with S. Africa

By Michael Holman

THE Anti-Apartheid Movement yesterday launched a campaign to boycott the products of Shell until the company disinvests from South Africa and Namibia.

"In 1986, it was the year of Barclays," said an anti-apartheid official, referring to the bank's decision to sell its interests in Barclays South Africa.

"This year will be the year of Shell. Within a year they will [illegible] to reconsider their decision to keep dealing with apartheid."

Yesterday also marked the start of a month of action organised by the movement, Britain's leading anti-apartheid lobby, during which offices of Standard Chartered Bank and Rio Tinto Zinc will be picketed.

Selected branches of major chain stores including Tesco, Sainsbury's and Asda which stock South African products will be boycotted.

Royal Dutch-Shell denies anti-apartheid campaigners' allegations that they are complicit in the supply of fuel oil to South Africa through their South African company.

Last year Mr L. C. Wachem, senior group managing director of Royal Dutch-Shell, took the unprecedented step of releasing a letter to the company's chief executive in which he condemned apartheid but defended Shell's record

"No Shell group company outside South Africa is supplying crude oil to anyone in South Africa," he wrote, responding to allegations that Shell companies have helped circumvent the oil embargo against the republic.

While he criticised the *South African Government's concept of change as "far removed from the aspirations of the majority inside South Africa and from world opinion,"* he said that Shell South Africa played a constructive role in the republic and argued against an end to ties with the company.

Shell South Africa was a "mature company, managed and staffed by South Africans and making no call on its shareholders for funds. Its fixed assets canot be physically removed.

"Therefore withdrawal or disinvestment would mean no more in practice than selling the title to the assets.

"Withdrawal which has no positive and possibly some negative effect on the community, would not be a demonstration of moral rectitude but of moral weakness."

However, the association with South Africa is causing the company increasing concern.

SHIPPING REPORT

Russians boost dry cargo market

By Hazel Duffy

RUSSIAN demand in the Atlantic dry cargo market brought a flurry of activity to the shipping scene last week.

London brokers Denholm Coates said it seems likely that at least 15 Panamax ships (the largest able to pass through the Panama Canal) have been taken, mainly for one round, but with some options of a second, and some for two to four months' charters.

Rates ranged from below \$4,000 (old 50,000 tons) to \$5,900 daily (65,000 tons). Smaller vessel rates are also expected to benefit from activity on the EEC/Russian run.

On the tanker front, it was another quiet week Brokers reported a slight slippage in Opec (although this was denied), which was sufficient to keep buyers on the sidelines, with consequent effects on the tanker market.

An agreement between Shell International Marine and the Trustees of Sanko Steamship in Tokyo caused some interest.

Shell has agreed to time-charter 12 Sanko vessels of between 80,000 dwt and 100,000 dwt for a minimum period of two years, at hire rates reported to be \$2.80 per dwt a month for the first year, rising to \$3 for the second year.

Otherwise, the only activity of note was West Africa, where it was reported that several vessels, including a VLCC, had been taken on a "private" basis.

Rescue move for Turkish bank

BY DAVID BARCHARD IN ANKARA

THREE Turkish state banks have bought a 66 per cent stake in the Turkiye Ogretmenler Bankasi (Tobank) after several weeks of reports that the bank was in difficulties.

No figure has been announced for the purchase price of the shares, which carry a nominal value of TL 2.8bn (£2.5m) but the Turkish press claims that the majority owner of the bank, Prof Kemal Sait Mimaroglu, was paid only TL 4m.

The bank is believed to have had non-performing loans totalling TL 51.1bn, many times the size of its TL 4.3bn capital.

The bank, which has 121 branches, is regarded as one of the medium-size commercial banks. It has had a singular history, being established in the 1950s as a teachers' building fund, but later being bought out by Prof Mimaroglu, who until recently was also professor of banking in Ankara University.

His share in the bank's equity has now fallen from 92 per cent to 24 per cent. A capital increase to TL 30bn is planned.

The three state banks involved in the equity purchase are the Ziraat Bankasi, which together with its subsidiaries now own just under 36 per cent of Tobank, and the Emlak Kredi and Halk Banks which own 15 per cent each.

The Treasury's intention appears to be that Tobank should remain an independent commercial bank if possible and not be absorbed into the structure of the Ziraat Bankasi

Coffee export control talks set to drag on

BY STEFAN WAGSTYL

COFFEE-PRODUCING and importing countries, meeting in London to discuss a possible re-introduction of export controls into the \$10bn (£7.1bn) a year market, were expected to continue their talks until late into the night yesterday.

There was little sign that the members of the International Coffee Organisation would reach a speedy decision.

Producers have been pressing for a rapid re-introduction of quotas since the meeting started last Monday.

But importers, including the US, have said they first want the distribution of quotas among producers to be changed. In particular, importers have argued for a reduction in Brazil's guaranteed share of the market, which is about 30 per cent.

The importers have said that a shortfall in the Brazilian crop last year caused by drought has discredited the present distribution of quotas which has been imposed in the past when prices have fallen below predetermined levels.

Thomson-GE pact expected

By Paul Betts in Paris

THOMSON, the French nationalised electronics and defence group, is expected to announce today a technology transfer agreement with General Electric (GE) involving the US group's colour liquid crystal technology used for screens and other avionic applications.

The agreement will also involve VDO Luftfahrtgerate Werk, the West German group with which Thomson already collaborates in various avionic components sectors.

Thomson is expected to build a new facility in France to produce the colour liquid crystal screens based on GE technology. The licensing agreement is regarded as strategically important for the French group which has become a leading avionic equipment manufacturer and has been seeking to extend collaboration in this field with other avionic groups.

US textiles 'enjoying widespread prosperity'

BY NANCY DUNNE IN WASHINGTON

FOES of protectionist US textile legislation are basing their fight against newly-proposed quotas on the argument that the American industry is now enjoying widespread prosperity.

In letters to Congress, the retail Industry Trade Action Coalition says profits are sky-rocketing, with textile stocks last year gaining more than 30 per cent on average and outperfoming every major Wall Street index.

The group is also quoting Federal Reserve data showing the textile industry with a capacity utilisation rate of 93.6 per cent.

The proposed quota legislation, supported by Senator Strom Thurmond, a South Carolina Republican, and other textile-state lawmakers, has been considerably modified from last year's version.

It would set quotas on imports of textiles and clothing from all countries, including Western Europe and Canada, instead of concentrating on the major textile exporters.

It would allow compensation to foreign suppliers for lost exports, base quotas on the level of imports last year and permit growth of 1 per cent each year. Despite its liberalisations, however, and contrary to earlier reports, it is still disliked by the Reagan Administration, which has said it will oppose "sector specific" legislation.

The American Textile Manufacturers Institute, which is organising support for the bill, announced that in 1986 textile and apparel imports rose 17 per cent and achieved their sixth straight year of record levels.

The 1986 textile and apparel trade deficit reached \$21bn (£15bn). The increase in imports from 1981-1985 alone represents the loss of 700,000 jobs, said Mr Dewey Trogdon, the institute's president.

World Economic Indicators

TRADE STATISTICS

		Jan '87	Dec '86	Nov '86	Jan '86
UK £bn	Exports	6.204	6.477	6.569	6.203
	Imports	6.731	7.364	7.569	6.105
	Balance	−0.527	−0.887	−1.000	+0.098
		Dec '86	Nov '86	Oct '86	Dec '85
US $bn	Exports	18.431	18.595	19.330	16.994
	Imports	29.089	37.816	31.389	32.141
	Balance	−10.658	−19.221	−12.059	−15.147
W. Germany DMbn	Exports	43.42	43.02	43.69	45.60
	Imports	33.07	32.89	34.98	38.23
	Balance	+10.35	+10.13	+8.71	+7.37
France FFrbn	Exports	68.09	71.39	71.89	76.86
	Imports	71.79	70.80	71.83	74.30
	Balance	−3.70	+0.59	+0.06	+2.56
Japan $bn	Exports	19.619	16.911	19.149	17.957
	Imports	10.920	9.510	11.360	11.312
	Balance	+8.699	+7.402	+7.789	+6.646

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Safety fears over PWR rekindle Sizewell doubt

BY DAVID FISHLOCK, SCIENCE EDITOR

A FRESH row has broken out among Britain's nuclear industry leaders on the eve of the second parliamentary debate on the report of the public inquiry into the proposal to build a pressurised water reactor (PWR) at Sizewell, Suffolk, on the east coast of England.

The row should make today's debate in the House of Lords a much livelier event than last Monday's House of Commons debate on Sizewell.

Sir Francis Tombs, chairman of Rolls-Royce and one of Britain's top technical advisers, has embarrassed the Government by publicly, as well as privately, criticising the safety of the PWR. His views are expected to be echoed today by several peers associated with the nuclear industry.

The criticism, if found to contain new information of substance unknown when the inquiry ended in January 1985, could force the Government to reopen the public inquiry.

The inquiry, into plans of the Central Electricity Generating Board (CEGB) to build a 1,200 MW PWR at Sizewell lasted 340 days, longer than any previous public inquiry in the UK.

Sir Francis wrote to The Times newspaper commenting on Sir Frank Layfield's report on the inquiry and urging the Government to reject its conclusion and retain the British-designed advanced gas-cooled reactor.

He wrote on the notepaper of Rolls-Royce, a nationalised company which builds the PWR for the Royal Navy submarines. It has built more than 20 naval PWRs and will shortly commission a new one in Scotland as a testbed for further development.

Sir Francis is also chairman of the Advisory Council on Applied Research and Development, which advises the Prime Minister on a wide range of technical matters.

He firmly believes that the AGR should be given another chance, despite early failings and despite evidence accepted by Sir Frank Layfield that its electricity is very likely to be more expensive than PWR power.

Sir Francis cites as the crucial factor an intrinsic safety characteristic of the AGR – its inherently slow response to any serious malfunction or deliberate interference.

Sir Francis's views were voiced publicly by Dr Geoffrey Sheppard, president of the Institution of Electrical Engineers, last week, at the institution's annual dinner, at which Mr Peter Walker, Energy Secretary, was the principal guest.

The strongly partisan note struck by Dr Sheppard, favouring the AGR and attacking the PWR, has embarrassed the institution, which did not give evidence to the public inquiry. Neither Dr Sheppard nor Sir Francis gave evidence at the inquiry.

Mr Walker did not respond. The Government says it is legally unable to answer PWR critics until after today's Lords debate.

Government officials say that the latest round of PWR criticism – which includes an advertising campaign by Friends of the Earth, the environmental group – is producing no new evidence on PWR safety. Only if there was fresh evidence would the Government reopen the inquiry.

The inquiry report identifies 12 "major contentions" on safety – more than for all other objections – but rejects them all. It states that safety was the dominant worry of the objectors.

Sir Francis has defended his use of Rolls-Royce notepaper to voice personal views by saying he reserved the right to criticise nuclear policy when he was appointed chairman by the Government. But he has conducted subsequent correspondence with the Government in his private capacity.

In the early 1970s Sir Francis – then chairman of the South of Scotland Electricity Board (SSEB) – was influential in persuading the Labour Government to launch a 4,000 MW nuclear programme based on another British reactor, the steam-generating heavy water reactor. The CEGB wanted the PWR.

In 1978, the Labour Government abandoned the new reactor, unbuilt, as hopelessly uneconomic and reverted to the AGR. But the Government still had enough doubts about the AGR to state: "We must develop the option of accepting the PWR system in the early 1980s."

Mr Donald Miller, at present chairman of the SSEB, which has continued to oppose the PWR, volunteered to give evidence to the Sizewell B inquiry. The inquiry report acknowledged the "unpromising beginnings" of the AGR programme but suggested that, if performance since the inquiry had continued to improve, "it may well merit a reappraisal of reactor system choice when the figures are sufficiently reliable."

The CEGB said yesterday that of the original 79 queries raised by Government's nuclear inspectors on PWR safety only three remained. The board added that there had never been a public inquiry into AGR safety.

Defection reflects disillusion with SDP

By Peter Riddell, Political Editor

THE SWITCH to the Conservative Party announced over the weekend by Mr John Horam, the former Social Democratic Party (SDP) MP and Labour junior transport minister, is likely to be an isolated example despite Conservative efforts to highlight the move.

Mr Horam's decision reflects a growing personal disillusionment with Alliance economic policy and disagreement with its view on public borrowing and spending, and incomes policy.

Senior SDP officials yesterday reckoned his decision was unlikely to be the start of a trend and that at most a handful of well-known maverick figures might switch. But the announcement is undoubtedly an embarrassment to the SDP after its success last week in the Greenwich by-election.

The timing of Mr Horam's switch was closely co-ordinated with Conservative Central Office, even to the extent that he refused to answer journalists' queries on Friday so as to maximise impact via the Sunday press. The date was chosen before the Greenwich by-election on Thursday when Conservative leaders decided that they needed to counter-attack against the expected Alliance win.

Mr Horam's move was welcomed by Mr Norman Tebbit, the Conservative Party chairman, as "of greater significance than any by-election result", while Dr David Owen, the SDP leader, said he was "sad but very relaxed" about it.

However, Mr Neville Sandelson, the increasingly outspoken former SDP MP, said he sympathised with Mr Horam and, attacking the Liberals as "unpredictable, untrustworthy and on the make", he said the SDP should seek a new alliance with the Conservatives. Mr Sandelson said he was forming a new group in the SDP with Professor Stephen Haseler to consider policies.

Mr Horam, aged 47 and an economist, has not been prominent at a national level in SDP politics since losing his House of Commons seat in 1983, but he did attend meetings of the party's economic policy and parliamentary advisory committees until before Christmas. He also consulted friends last autumn about possibly putting his name forward for a candidacy.

He has always been on the free-market wing of the SDP, arguing against incomes policy. Over the weekend he said he had joined the Tories because he felt the Alliance was "looking more and more like a Mark Two Labour Party, going down the road of higher public spending, higher taxes and an incomes policy. I am opposed to all that. It seems very reminiscent of the policies which failed in the 1960s and 1970s."

Avana foods expansion to create 800 jobs

BY ANTHONY MORETON, WELSH CORRESPONDENT

AVANA, the Cardiff-based foods group which is fighting off an unwanted £280m take-over bid from Ranks Hovis McDougall, is to undertake a huge expansion in Merthyr Tydfil, South Wales, creating about 800 jobs. It is one of the largest single job-creation exercises in the UK in the past few years.

The company is to expand output of its bakery, chilled foods and cereals, most of which go under own labels to big retailers such as Marks and Spencer.

The move, which has attracted substantial regional development grants from the Government, is expected to be announced in the House of Commons today by Mr Nicholas Edwards, the Welsh Secretary.

Avana's decision will be particularly welcome in Merthyr, where unemployment is running at about 19 per cent.

The company, the largest private-sector employer in Wales with a workforce of more than 4,000 has negotiated with the Welsh Development Agency (WDA) to take the remainder of the Dragon Park factory owned by Hoover, where washing machines for the European market are made.

Last November, however, Hoover announced that it was to move its European headquarters from London to a 60,000 sq ft office block on Dragon Park, involving 250 jobs, most of them to be recruited locally.

Avana is to take the remaining 390,000 sq ft, one of the largest single modern factory sites available in the UK. Dragon Park was built by the Government in 1973 next to the main Hoover plant to cater for planned expansion by the domestic appliance manufacturer. The plans were wrecked by the downturn in economic activity that followed the first oil crisis.

Since then, the WDA, which took over the Government's property portfolio in Wales on its foundation in 1976, has sought – at times almost desperately – to find a single buyer for the site.

Last November it sold the site back to Hoover

Falklands air crash inquiry begins

A SEVEN-MAN team of Royal Air Force experts arrived in the Falklands last night to investigate Saturday's crash of a twin-rotor Boeing Chinook helicopter, in which seven RAF personnel died, John Griffiths writes.

The crash was the latest of several incidents or crashes involving the huge helicopters during the past few years, and the second on the Falklands within a year. Thirteen people were killed when one crashed into a hillside during a blizzard on West Falkland last spring.

A Ministry of Defence (MoD) spokesman said last night that the RAF's 35 other Chinooks would continue in service while investigations into Saturday's crash were under way.

The helicopter, from RAF 78 Squadron, was described as having crashed in clear, sunny conditions on a marshy area about two miles from the new Mount Pleasant airport. It was said by the MoD to have been on a route operational flight, although it previously had undergone minor servicing.

Representatives of the Civil Aviation Authority (CAA) were not available for comment yesterday.

However, the CAA would not expect to take any action over civil Chinooks unless or until the RAF investigators concluded that a possibly generic mechanical fault was responsible for the Falklands crash.

■ FAILURE by the Government to find the Civil Service source of the alleged leaks of highly sensitive information about takeovers has been attacked by Mr Robin Cook, the Labour Party's trade spokesman.

He has tabled a House of Commons motion referring to the announcement of last December 18 appointing inspectors to investigate alleged insider dealing within the Department of Trade and Industry, the Office of Fair Trading or the Monopolies and Mergers Commission.

■ LADBROKE, Britain's second largest hotels chain, is the target of a Transport and General Workers' Union (TGWU) campaign to draw more temporary and part-time workers into union membership. Teams of TGWU workers will attempt to talk to workers at all Ladbroke hotels.

■ MR JEREMY ISAACS, chief executive of Channel 4, the independent television company, has been offered the post of general director and administrator of the Royal Opera House (ROH). He will announce his decision shortly. Sir John Tooley, the present director of the ROH, retires in two years' time.

■ BRITAIN's wool-textile exports dropped by 8 per cent last year to £556.3m but an upturn towards the closing months has led the industry to believe that the 1987 out-turn could top the record £607m achived in 1985.

Mr Geoffrey Richardson, director of the National Wool Textile Export Corporation, said there were "encouraging signs from the end-of-years figures."

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UK NEWS

Labour sees industry as key to strategy

BY DAVID THOMAS, LABOUR STAFF

THE LABOUR Party is to try to put the needs of manufacturing industry at the centre of the public debate leading up to the next general election.

This emerges from the confidential 44-page draft of a statement on Labour's industrial policy which the party's leaders intend to launch later this month. The statement is one of the most comprehensive prepared on industry by Labour during this parliament.

The statement, Going for Growth: Labour's Strategy for British Industry, shows that Labour believes the government is vulnerable over its record on manufacturing industry, particularly for presiding over a growing trade imbalance.

It contains new proposals issues including takeovers, the role of the Department of Trade and Industry, research and development and regional policy.

It also draws together and develops commitments previously made by Labour's leadership. These include establishing a British Investment Bank which would lend money to companies for investment at subsidised interest rates and a new holding company, British Enterprise, which would take equity stakes in high technology companies.

The statement, prepared by Labour's industry committee, is pragmatic, stressing Labour's wish to work in partnership with manufacturing industry.

Labour's more radical policies, such as those relating to social ownership or to trade union participation in decision making, are given relatively little stress.

Labour is proposing to reshape mergers policy, one of the most detailed sections of the statement, so that takeover bids are more difficult to carry through.

The merger wave has forced "managers to focus on short-term profits, either to prepare the next bid or the next defence," says the document.

Labour would widen the criteria for referring proposed mergers to the Monopolies and Mergers Commission; place the burden of proof on companies proposing takeovers; give workers a statutory right to be consulted during bids and strengthen the monitoring of proposals made during bids.

Labour wants to give greater authority to the Department of Trade and Industry within the government machine.

The document suggests that the Department's budget should be protected for the full five years of a parliament so that companies can be assured that government support will not be cut.

Specialist teams would be appointed to the Department to help prepare plans for individual industrial sectors and also help companies with their export efforts.

Reflecting recent concern about the level of research and development in Britain, the document suggests establishing a Council for Science and Technology, reporting to a minister solely responsible for R&D, which would oversee an increase in spending on R&D, both public and private.

Regional policy would also be boosted.

Development agencies would be set up for some northern regions. These would be advised first by appointed councils, representing the various interests in the region, and then by elected regional assemblies.

BBC against major service cuts

BY RAYMOND SNODDY

THE BBC has come out against major amputations of any of its services and decided that it can live within a licence fee linked to the Retail Price Index by making further savings within the corporation.

The confidence at the present range of BBC activities can be funded, though probably with a smaller number of staff, was the underlying theme of the weekend conference between the board of governors and the board of management at Stratford-on-Avon presided over by Mr Marmaduke Hussey, chairman of the BBC and the corporation's new director general Mr Michael Checkland.

The conference also considered the possibility of uniting the news and current affairs departments of the BBC under a single division headed by a new director of news and current affairs, but no final decision was taken.

At the end of the conference Mr Checkland went before the cameras and promised that in future the BBC intended "to be more open in communication with our audience and our shareholders who are the audience in this country." A newspaper campaign already under way highlights the BBC commitment to the old principles of public service broadcasting – to inform, educate and entertain.

But Mr Checkland, who was chosen unanimously by the governors as the next director general last Thursday, said a more direct approach might be needed, implying that the BBC would use its own airwaves to get its message across to licence payers.

● The Government is considering publishing a Green Paper (discussion document) on television before the next general election. The paper will pave the way for a substantial bill on broadcasting if the Conservatives win the next general election.

The possibility of bringing forward plans for a television Green Paper follows criticism in parliament that the Government has been announcing broadcasting measures in a piecemeal way and that the electorate should know what its full intentions are before an election.

Whether the Green Paper is given the go-ahead will depend on the date of an election and the speed of the Cabinet sub-committee chaired by Mrs Margaret Thatcher.

Football blows whistle on mergers

By Philip Coggan

FOOTBALL'S establishment yesterday agreed to stand firm against the wave of merger proposals which threatens to reduce sharply the number of British soccer clubs.

A meeting between representatives of three footballing authorities agreed to block the controversial Fulham-Queens Park Rangers (QPR) merger and to find ways of outlawing future property-based deals. But it is far from certain that the decision will save Fulham Football Club.

Fulham of the Football League's third division will merge with its west London neighbours Queen's Park Rangers of the first division under a proposal by Marler Estates, the property company which owns both clubs.

Marler wants to move Fulham to QPR and to redevelop the Thames riverside ground at Fulham for luxury flats. But despite the efforts to block the merger Marler still has the option of closing Fulham completely.

"The crew of the good ship football has united to repel a pirate boarder," said Mr Gordon Taylor, secretary of the Professional Footballers Association (PFA), yesterday after a meeting between the Football League, Football Association and the PFA.

All were aware that their action did not guarantee Fulham's survival. "We are concerned that SB Properties (the Marler subsidiary which owns both clubs) does not put Fulham into liquidation as a result of the action we are taking," said Mr Philip Carter, president of the league. "We can't stop them. We can only appeal to them in terms of the football aspect."

Football's authorities want Marler to sell Fulham to someone who would keep it going as a soccer concern. Already, Mr Ernie Clay, former Fulham chairman, and Mr Jimmy Hill, the TV pundit, have offered to try to save the club.

DECLINE OF 24% IN COMMERCIAL VEHICLE PRODUCTION

Rover Group truck output slides

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

THE STATE-OWNED Rover Group's output of commercial vehicles last year fell to the lowest level since Austin and Morris merged to form the British Motor Corporation – nucleus of the present group – in 1952.

Political rows about the future of Rover and subsequent management upheavals damaged the group's commercial vehicle sales in the UK as severely as its car operations. At the same time export business remained severely depressed.

Consequently, Rover's output of commercial vehicles slumped by more than 24 per cent from the 1985 level to only 68,537.

The only part of the group not to suffer a serious production decline was Freight Rover, the Sherpa van business.

Austin Rover, whose output of car-based vans had bounced back in 1985 after the introduction of the Maestro van, suffered a 27 per cent production fall last year to 18,219.

The slump in Land Rover output was even worse – 32.5 per cent to 20,957, reflecting difficulties in many of Land Rover's traditional overseas markets in the Middle East and Africa. Production of Leyland trucks and buses fell by 29 per cent to 10,996.

The bus business, which contributed most heavily to the fall, has now been sold to a management consortium and Leyland Trucks and Freight Rover have been put into a new joint company controlled by Daf Trucks of the Netherlands.

Upheavals within Ford's commercial vehicle operations last year also played a part in the slight fall in output recorded by the company. Ford built up production of the new Transit van, Britain's best-selling commercial vehicle, only gradually at the Southampton plant last year to ensure quality was maintained as new versions were progressively introduced.

Meanwhile, production of the Cargo trucks at Langley, Berkshire, was disturbed by the uncertainties created by the merger in June of Ford's medium and heavy truck business in the UK with the British operations of the Fiat-owned Iveco company.

Bedford, the General Motors subsidiary, suffered a 19 per cent drop in commercial vehicle output to 51,201 last year.

Not only did the company announce towards the end of 1986 it was to stop making medium and heavy trucks in Britain, but Bedford also had less success than it hoped for with the Midi light vans, based on a design from Isuzu, GM's Japanese associate.

The statistics, soon to be published in the Society of Motor Manufacturers and Traders Monthly Statistical Review, confirm that total UK commercial vehicle output last year fell by 14 per cent to 228,685, only 4,260 more than in 1984 when production fell to the lowest point for 35 years.

UK Commercial Vehicle Production

	1985	1986
Austin Rover	25,028	18,219
Land Rover	31,046	20,957
Freight Rover	18,879	18,364
Leyland Vehicles	15,491	10,996
Total Rover Group	90,444	68,536
Ford	101,407	93,805
General Motors-Bedford	63,473	51,201
ERF	1,950	1,911
Iveco Ford	0	5,802
Foden	472	583
Hestair Dennis	870	677
Metro-Cammell-Weymann	435	278
Renault Truck	5,022	4,133
Seddon Atkinson	1,987	1,626
Others	233	177
Total	285,973	228,685

Source: SMMT Monthly Statistical Review.

Share price rise at Underwoods blunts Woolworth bid interest

BY TERRY POVEY

TAKEOVER DISCUSSIONS between retailers Woolworth and Underwoods, the retail chemists' chain have been derailed by a sudden and sharp rise in the Underwoods share price. A stock exchange investigation into the almost 40 per cent leap in Underwoods' share price over the last week is possible.

Mr Nigel Whittaker, Corporate Affairs Director of Woolworth Holdings, said yesterday that "exploratory discussions between us were unexpectedly interupted by the rapid change in Underwood's share price." Underwoods' shares rose by 49p to 237p on Friday as bid rumours circulated in the market and Underwoods were obliged to issue a statement that talks were underway but without naming the other party.

The two companies have so far failed to agree on terms, however. Mr Harold Woolf, chairman, founder and major shareholder in Underwoods, says he is angry at the rise in the share price.

In spite of this development and speculation that other retailers may want to make a bid for Underwoods, the two companies are likely to meet again. However, differences over pricing could now prevent a deal. "We know what we want to pay to settle this matter," said Mr Whittaker. He considered that the Underwoods' current price was "too high."

Two weeks ago Underwoods appointed merchant bankers Lazard Brothers as its financial adviser. Previously it was advised by Morgan Grenfell, the merchant bank which brought the company to the market with its shares priced at 180p in October 1985. On the board of Underwoods as a non-executive director is Mr Roger Seelig, former takeover specialist at Morgan Grenfell, who resigned from the merchant bank after revelations of his role during the Guinness takeover of Distillers.

Woolworth, which has hired Morgan Grenfell to be its advisers especially for the negotiations with Underwoods, has worked hard to improve its performance and image since escaping from a £1.8bn bid made by Dixons last July. While the bid defence costs in the acrimonious battle with Dixons were heavy, Woolworth has been on the acquisition and expansion trail ever since.

With 12m customers a year passing through its 1,100 stores, Woolworth is this year spending £155m to give the whole chain a new look. Underwoods with some 40 stores concentrated in the London and the south east of England reported pre-tax profits of £1m for the six months to July and has struggled to hold the premium rating given when it was floated.

CBI calls for speedier moves on planning

By Hazel Duffy

PLANNING PROCEDURES need to be speeded up and businessmen be given a powerful role in planning consultations, says the Confederation of British Industry (CBI) today.

In reply to the Government consultation paper on planning procedures published last September, the CBI says that overall planning procedures should take no longer than 18 months from start to finish.

The employers' organisation calls for fewer formal consultation stages in the preparation of development plans with strict timetables for all concerned.

It says that regional consultative committees should be set up which would have strong business representation alongside that for county councils, government departments and local interest groups.

The guidelines to be set by these committees would cover developments which would have an impact beyond the borders of one county.

Corporate levies 'will help pay for lower taxes'

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

A SHARP rise in the tax burden on British companies will pay for most of the expected reductions in personal income tax in the budget on March 17 according to a new analysis from a leading city of London economist.

Mr Gavyn Davies, chief UK economist at the US securities house Goldman Sachs, *says in the study* that even on cautious assumptions Mr Nigel Lawson, the Chancellor of the Exchequer, could have £4.5bn to £5bn available. That would allow tax cuts of £3.5bn and a £1.5bn reduction in his public borrowing target to £5.5bn.

The unusually large "fiscal adjustment" reflects what the study refers to as a "spectacular jump" in Government's receipts in the current 1986/87 financial year – and the prospect that higher revenues from the corporate sector will carry over into 1987/88.

Underlying tax receipts are likely to rise by some 10.4 per cent in 1986-87 compared with a general rise in incomes of only 6.1 per cent. As a result, the effective non-oil tax rate on the community has risen from an intended 39.3 per cent of gross domestic product to 40.5 per cent.

The study comments: "This may not seem very much, but it amounts to over £4bn of revenue. Think of the political uproar that would have ensued if this had been raised by an overt change in the tax regime."

Part of the windfall can be accounted for by increased value added tax receipts as a result of a *change in the composition of consumer spending*. By far the largest component, however, reflects the increased tax payments by companies – in turn a result of changes in the corporate tax structure and buoyant profits.

The drop in investment tax allowances announced in the 1984 budget, a permanent reduction in the number of tax-exhausted companies, and *higher profits have* resulted in a rise in the effective rate of tax on non-oil companies from 17.5 per cent now two years ago to 21.8 per cent now.

The structure of the phasing-in of the new corporate tax system – which means that investment allowances reach a low point this year before steadily rising in future years – suggests that the tax rate will rise again to at least 23.3 per cent in 1987-88. This will produce another £2.8bn rise in tax receipts.

LOCAL AUTHORITIES STRUGGLE TO FIND STAFF IN LONDON AND THE SOUTH EAST

Top staff lured by 'golden hellos'

BY DAVID BRINDLE, LABOUR CORRESPONDENT

THE "GOLDEN HELLO", which originated in the US and took root in the City of London ahead of last year's Big Bang, is starting to appear in Britain's public services.

Local authorities in London and the south east of England have begun to offer benefits such as cars and generous mortgage subsidies to try to recruit scarce professional staff. Such inducements in cash or kind were previously seen mainly in the financial sector, or offered to employees with valuable skills in high-technology industries.

Hastings Borough Council, in East Sussex, became one of the first authorities to advertise openly a golden hello – a one-off cash payment of £3,000 – for a group accountant vacancy, but that post remains unfilled after three rounds of advertising.

The London borough of Bromley has been offering accountants relocation expenses of up to £8,000, a property equity share of up to £50,000 and leased cars.

Bromley reports a much *higher* number of job applicants since the special incentives were approved by councillors. "Members are very *mindful that certain services* have got to be kept going, particularly on the *financial side*" the authority said.

The trend for local authorities to offer remuneration packages usually associated with the private sector is noted in the March issue, of Personnel Management, the journal of the Institute of Personnel Management.

Emergence of the trend coincides with the Government's urging of local authorities to pull out of national pay bargaining. It says councils *should* be free to set their own pay rates according to local labour market conditions.

Mr Duncan Keir, chief personnel *officer of Hastings* council, said he had little difficulty filling most job vacancies at nationally negotiated pay rates because registered male unemployment in the area was 17 per cent. The problem was competing with professional-grade salaries on offer to commuters in London.

Mr Keir said he preferred to describe the £3,000 golden hello attached to the group accountancy post, which offered a salary of up to £13,653, as a "scarcity plussage."

One authority which has had no compunction about calling a golden hello precisely that in its job advertisements is the London Borough of Campden. It has offered computer staff payments of up to £3,000, depending on grade.

Although these *incentives have* boosted recruitment, Campden still has 23 vacancies out of an establishment of 92 computer staff.

Union group highlights Tories' City links

BY PETER RIDDELL, POLITICAL EDITOR

MORE THAN 25 *per cent* of all corporate donations to the Conservative Party come from organisations associated with the City of London, according to the Labour Research Department, the independent trade union and left-wing research group.

In the latest issue of Labour Research, the group notes that 77 City of London firms paid a total of £479,460 to the Conservative Party in the year to March 1986.

What the Labour Research describes as "Tory front organisations," including British United Industrialists and the Economic League, received a total of £85,587. The two biggest contributions were £35,000 each from Royal Insurance and Sun Alliance.

Labour Research defines City firms as banks, discount houses, leasing and hire purchase groups, life and composite insurance companies, insurance brokers, investment trusts, merchant banks and miscellaneous others.

The survey says all eight merchant banks which made donations to the Conservative Party have current or former Tory MPs as directors or consultants. The same applies to five out of eight banks, four out of six insurance brokers and two out of six insurance companies.

Labour Research seeks to highlight links between the City and the Conservative Party by listing 54 backbench Tory MPs retained as directors, consultants or advisers.

However, two of the 54 are SDP-Liberal Alliance, not Tory, members and in some cases the City link is tenuous such as, for example, being a director of a local building society or consultant to a public relations firm.

The survey notes that the present Cabinet has eight members who *had City interests before* joining the Government.

Changes sought by British Coal planned for years, say unions

BY CHARLES LEADBEATER

THE CHANGES to working practice which British Coal wants to introduce to maximise the use of new technology have been planned for more than a decade, union leaders say.

The claim is based on a secret coal board *memo* written in 1973 which recommends establishing a high-level confidential committee to plan the changes.

Sir Robert Haslam, chairman of British Coal (formerly the National Coal Board) *stressed* the need for changes in working practices, such as revised shift patterns to allow six-day production.

However, many of the proposals were first mooted by Mr Wilfrid Miron, an influential former coal board member.

In a confidential memo sent to the home address of Sir Derek Ezra, then National Coal Board chairman, Mr Miron urged a series of measures to cut manpower and the influence of the *National Union of* Mineworkers.

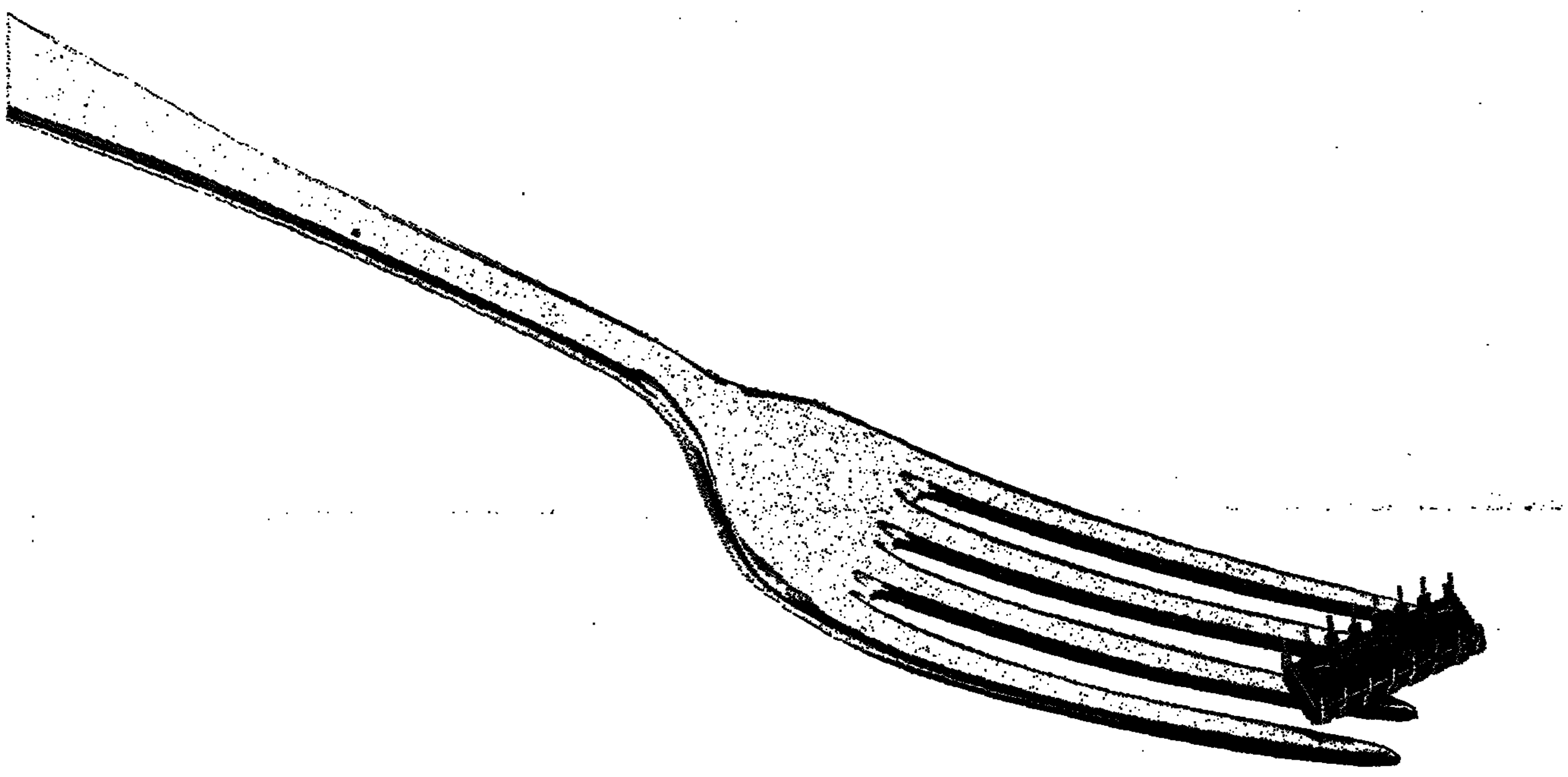
These included:

- The introduction of the 1965 agreement, which allowed seven-day coal production at the Bevercoates colliery in Nottinghamshire. British Coal recently said it wanted to move to six-day production at all sites where there would be major investments.
- A move to man-less mining operations through new technology. British Coal plans the widespread introduction of heavy duty coal face equipment. The first *pilot two-man* coalface will start production this year.
- The return to local pay and productivity *agreements to restore* the authority of moderate local leaders. *Sir Robert has said* a *range* of local incentive schemes will be introduced.

Coal industry unions believe the *memo* led to the establishment of what Mr Miron calls "a high powered confidential working group" under Mr Norman Siddal, who later became NCB chairman.

Mr Peter McNestry, the leader of Nacods, the pit managers union, yesterday said the memo indicated that British Coal's proposals were planned well before the second oil-price rise, the election of the *Thatcher Government* or the arrival of Mr Ian McGregor as NCB chairman.

British Coal dismissed the alleged similarity between the memo and current plans: "This memo is long out of date and has absolutely no relevance to the *modern* coal industry."



BASE LENDING RATES

	%		%		%
ABN Bank	11	● Charterhouse Bank	11	● Morgan Grenfell	11
Adam & Company	11	Citibank NA	11	Mount Credit Corp. Ltd	11
Allied Arab Bk Ltd	11	Citibank Savings	¶12.45	Nat Bk. of Kuwait	11
Allied Dunbar & Co	11	City Merchants Bank	11	National Girobank	11
Allied Irish Bank	11	Clydesdale Bank	11	Nat Westminster	11
American Exp. Bk	11	Comm. Bk. N. East	11	Northern Bank Ltd	11
Amro Bank	11	Consolidated Cred	11	Norwich Gen. Trust	11
Henry Ansbacher	11	Co-operative Bank	*11	PK Finans. Intl (UK)	11½
ANZ Banking Group	11	Cyprus Popular Bk	11	Provincial Trust Ltd	12
Associates Cap Corp	11	Duncan Lawrie	11	R. Raphael & Sons	11
Authority & Co Ltd	11½	E.T. Trust	12	Roxburghe G'rantee	11½
Banco de Bilbao	11	Equator'l Tst C'p plc	11	Royal Bk of Scotland	11
Bank Hapoalim	11	Exeter Trust Ltd	11½	Royal Trust Bank	11
Bank Leumi (UK)	11	Financial & Gen. Sec.	11	Standard Chartered	11
Bank Credit & Comm	11	First Nat. Fin. Corp	11½	Trustee Savings Bnk	11
Bank of Cyprus	11	First Nat. Sec. Ltd	11½	UDT Mortgage Exp.	¶12.25
Bank of Ireland	11	● Robert Fleming & Co	11	United Bk of Kuwait	11
Bank of India	11	Robert Fraser & Ptrs	12	United Mizrahi Bank	11
Bank of Scotland	11	Grindlays Bank	‡11	Westpac B'nking Corp	11
Banque Belge Ltd	11	● Guinness Mahon	11	Whiteaway Laidlaw	11½
Barclays Bank	11	HFC Trust & Savings	11	Yorkshire Bank	11
Benchmark Tst Ltd	11	● Hambros Bank	11		
Beneficial Trust Ltd	12	Heritable & Gen. Tst	11		
Berliner Bank AG	11	● Hill Samuel	§11		
Brit. Bk. of Mid. East	11	C. Hoare & Co	11		
Brown Shipley	11	Hongkong & Shangh'	11		
Cl. Bank Nederland	11	Lloyds Bank	11		
Canada Permanent	11	Mase Westpac Ltd	11		
Cayzer Ltd	11	Meghraj & Sons Ltd	11		
Cedar Holdings	12	Midland Bank	11		

● Members of the Accepting Houses Committee. * 7-day deposits 6.69%. 1-month 7.03%. Top Tier—£2,500+ at 3 months' notice 10.03%. At call when £10,000+ remains deposited. ‡ Call deposits £1,000 and over 6¾% gross. ¶ Mortgage base rate. § Demand deposit 6.69%. Mortgage 12¼%.

هكذا من الأصل

INTERVIEW

General flak

David Buchan talks to General Bernard Rogers, Nato's Supreme Allied Commander Europe

IT was 15 to one, in General Bernard Rogers's favour. All 15 European Nato governments, plus Canada, plus Lord Carrington, the alliance's secretary-general, wanted him to stay on as top Nato commander and said so.

But the Big One—the US, which happens to be the General's direct employer—thought otherwise. Its decision finally became public last week; on June 30 the man everyone in Nato knows as Bernie, and his wife Ann Ellen, will pack up after eight years at Nato headquarters in Mons, Belgium, to head for retirement.

After a record eight-year term as *Supreme Allied Commander Europe*, he clearly wanted to stay on for a further two years. "In fact," says one of his key Nato supporters, "Bernie made it a little too clear for his own good—Washington was beginning to wonder if it could ever dig him out."

Another factor was peer pressure. With 65-year-old Rogers having several more years experience of top command than the US joint chiefs of staff, it was a bit like "having Daddy around for ever," says the same official. The new Supreme Commander is a 57-year-old, General John Galvin.

However Rogers may feel about the decision, he plays the good soldier. No uppity Douglas Macarthur, he. "I want you to understand that I'm not criticising the US for this," *he stressed* in a valedictory interview last Tuesday, the day his removal became public.

He knows, and accepts the rules. Ever since Eisenhower, the rule has been that he who holds the job of commander of US forces in Europe becomes Nato Supreme Allied Commander Europe.

But what is it about this square-cut Kansan that has provoked such an unusual degree of European solidarity? The General puts it down mainly to European fear of the unknown and consequent European appreciation of a known American quantity like himself.

The two sides of the Atlantic are, he says, further apart than when he took his job at Nato in 1979. Clashes of US-European interest over Star Wars, arms control, regional Third World crises and maintenance of US troops in Europe, are—with current political weakness in the White House and elections forthcoming over the next two years in Britain, France and the US—making alliance management trickier.

"In the run-up to these elections often times things are said which are not conducive to the cohesiveness of the alliance. *Transatlantic relations are not* what they should be if one *wants to display unity towards* the Soviet Union," he says.

Not that the General has always been a calmer of troubled waters. He has, for instance, weighed in against the British Labour Party's promise to remove US nuclear bases as just the catalyst to cause a general US pull-out from Europe. He described the widely welcomed proposal for elimination of medium range nuclear missiles from Europe, now under discussion in Geneva, as giving him "gas pains."

But that very willingness to give and take political flak has suited various governments—European and American—in the past. "Bernie has been an outstanding Saceur (Supreme Commander) says Lord Carrington, "because he has never been afraid to say what he thinks in order to appease or prevent controversy. He has always believed his role was to say honestly 'You have given me the job of defending Europe and I have to tell you that I can't do it for this or that reason and that you, whatever country, are not doing enough.'"

People like that can be momentarily "irritating and politically awkward," Lord Carrington says, aware perhaps that, depending on the nature of Gen Rogers's replacement, the mantle of scourge of alliance back-sliders may fall on himself.

In olive green uniform, Rogers looks the American proconsul in Europe. But just as much he has been Europe's voice to America. He has totted up 13 years in Europe, three as a Rhodes Scholar and two as a divisional commander in Germany before he went to Mons. "I would hope I understand the Europeans' views and some of their sensitivities and what their reaction would be to certain proposals the US might make, just as I hope I have been able to represent the US position to the West Europeans," he says.

Surprisingly for someone who sharply criticised the arms control fright the US gave some of its allies at Reykjavik, Rogers awards the Reagan Administration generally high marks for consulting Nato—higher marks than the Carter Administration which named him to the job. For their part, the Europeans do not always level with the US, he says—especially when it comes to multilateral meetings as opposed to Thatcher-Reagan parlour chats.

"I have sat in on ministerial meetings when I knew what the (European) nations felt, and it just didn't come across to the Americans," he says. He regards his mid-Western bluntness as a useful antidote to European reserve.

Should the job of Supreme Allied Commander Europe be in the European, rather than the American gift? No, says Rogers, for three reasons. First, in his role as commander of US forces in Europe, an American Supreme Commander has direct control over 326,000 US troops, can request reinforcements from the US without going to other nations, and has direct access to US nuclear planning—the ultimate threat on which the Nato flexible response strategy lies.

Second, a European or Canadian in the top Nato military job would probably mean an American secretary-general. The loss of this politically more senior job would be hard for non-Americans to swallow. "But the real problem is: what nation other than the US could provide a nomination on which all the others could agree?"

Rogers's clout in Washington may have waned as he came to be seen as having "gone native." Certainly the public comment last autumn by General Hans-Joachim Mack, Gen Rogers's West German deputy, that "Bernie Rogers is as good a European as I am" could not have helped.

None the less, Rogers's frequent testimony on Capitol Hill showed him to be an eloquent proponent of the US military presence in Europe and he has no obvious successor in that role.

Rogers sees a greater possibility now that the US will withdraw at least some of its troops than he did when the last such scare occurred in 1971, "when as head of army congressional liaison I was walking the halls of Congress trying to beat down the Mansfield amendment (which called for troop cuts)."

The Zbigniew Brzezinskis and Henry Kissingers—who have suggested pulling 100,000 troops out of Europe to deploy elsewhere—are getting a more sympathetic hearing from a Congress irritated with Europe for its trade protectionism and failure to spend more on defence.

This "let's-show-the-Europeans-we'll-bring-our-troops-home" attitude is nonsense, says Rogers. US troops are not in Europe out of charity, but to defend vital American interests; a European war could end up with nuclear devastation of the American homeland; the US would never persuade its allies to do more by doing less itself.

Rogers rattles off some figures, whose recent preparation shows the threat of withdrawal is being taken seriously. Taking 100,000 men back to the US would cost up to $1bn (£648m), new facilities for them in the US would cost $5bn, and to return them to Europe in time of crisis would cost $25bn to $100bn for airlift and prepositioning of equipment.

Which prospect gives him worse "gas pains"—some of his troops going or all of the cruise and Pershing medium range nuclear missiles? The General shifts uncomfortably. It is a devilish dilemma for a man who has trekked the length and breadth of Europe to crusade for more Nato spending on conventional defence to avoid too early a reliance on nuclear weapons.

Using words that convey a chilling responsibility, he says: "I have to tell you that as of today I would still be required in the event of serious attack to request early release of nuclear weapons, under my *guidance which gives me no* flexibility. This guidance states I must request release of nuclear weapons before I lose *the cohesiveness of my defence* from major penetrations."

This straight talk on nuclear weapons is designed to persuade governments and their electorates to spend as much on conventional forces as gross national products and tax rates will bear so as to raise the threshold at which a nuclear war might start. But it may have also increased popular jitters about nuclear weapons on the western side, as much as on the eastern—which is not what the General intended. Indeed he says: "My biggest disappointment has been the failure to convince people there is a real threat to their freedom." This threat is not a bolt-out-of-the-blue attack by the Soviets, but gradual intimidation from superior Warsaw Pact forces. "What was it Churchill said?—'Enjoying the fruits of victory without the pains of war.'"

But in the Pentagon Rogers would not pass for a hawk. Though he wants Western Europe to keep some missiles that can strike Soviet territory, he has been instrumental in reducing the number of shorter-range nuclear weapons from 7,000 in 1979 to 4,600 "sometime soon." Nor is he against *cutting troop or missile* numbers, "if, coupled with something else, they could be a pump primer" for wider arms *controls negotiations.*

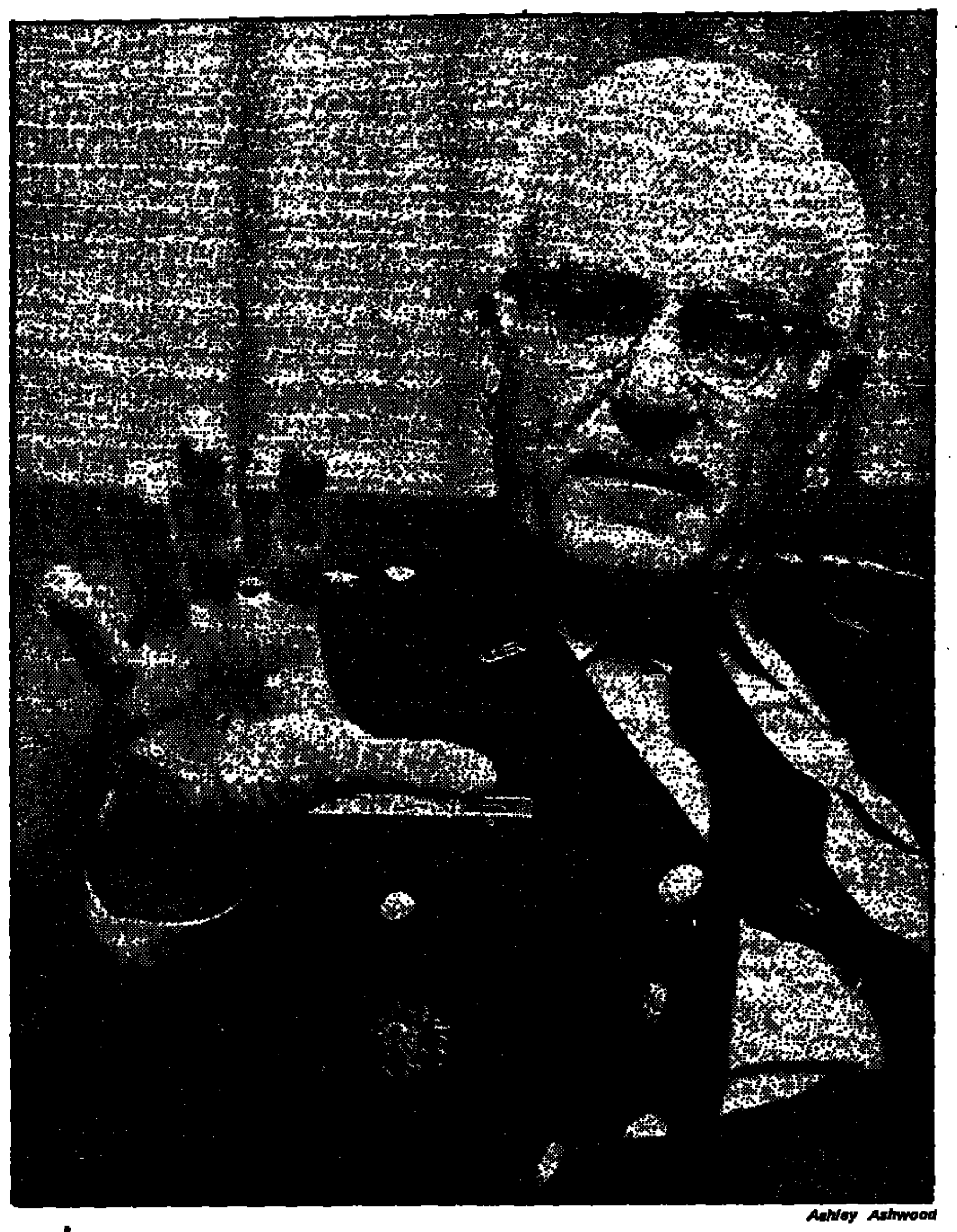
Dialogue with the East, he says, has a place, and *last* autumn he nearly had a place *in it. He regrets* that the Nato political authorities prevented him from taking up an invitation to meet his Warsaw Pact counterpart, Marshal Viktor Kulikov. There would have been "no utility in the way the Soviets regarded it—to try to convince me they don't have the superiority that we think they have. But we could have sat down, compared notes on systems, and taken the nature of each other."

In the event, the General has had to confine his diplomatic talents to the West. The peculiarly political nature of his job—"about 70 per cent," he says—makes it a good springboard for civvy street.

So what of the future? "Damned if I know. I'm not going to run for office. I come from a town, Fairview Kansas, with 250 people and two elected officials—one mayor and one dog-catcher. I'm not qualified for either so perhaps I'll be a golf bum." Don't count on it.

● PERSONAL FILE

1922 born Fairview, Kansas
1939-43 educated Kansas State College and US Military Academy
1943 entered army as platoon leader
1947-50 Rhodes Scholar
1952 battalion commander in Korea
1960-62 divisional chief of staff in West Germany
1966-67 assistant divisional commander in Vietnam
1976-79 US Army Chief of Staff
1979-87 Supreme Allied Commander Europe



Ashley Ashwood

Capital flows and gunboats

JOHN PLENDER

IN A WORLD populated by thoroughly rational human beings, a combination of floating exchange rates and unrestricted capital flows might conceivably result in a very efficient international allocation of financial resources.

Instead we have a world inhabited by politicians, bankers and mere mortals. Result: capital is flowing to all the wrong places to finance all the wrong things. Ask the over-indebted Brazilians, as they baulk at pumping more money into the US economy.

It didn't work like that in the 19th century, when sterling reigned supreme and the private savings of the British middle class financed the development of the Americas and the British empire. An integrated global capital market actually performed well then, in the sense that an old country with a huge capital surplus exported funds to young countries where returns on investment were potentially high, yet domestic savings were, inevitably, in short supply.

Today the Japanese, with a huge propensity to save and a current account surplus on their balance of payments of $84bn, are the world's biggest capital exporters. Yet the biggest recipient of those funds is not a developing country, but the United States.

Because the Americans are not sufficiently thrifty to finance their own budget deficit, the world capital market helps plug the gap. But it has done so at the cost of a huge dollar overvaluation earlier in the 1980s and a consequent deterioration in the US trade balance.

Put another way, if the *Americans continue to import* more than they export, they are bound to end up selling IOUs and capital assets to foreigners *to finance current spending.*

There are, of course, some cheerful American economists of the supply side variety who claim that this is not quite as irrational as it sounds. The sunbelt of America, they claim, is the equivalent of a developing country; external capital is needed to finance investment in high-technology industry. More realistic folk point an accusing finger at the Pentagon, with its incurable spending habit, and at service industries like office property, where activity has not been affected directly by the overvaluation of the dollar and where the Japanese have been busily financing new development.

Back at the head office in Tokyo, meantime, they regard overseas direct investment as an insurance policy against protectionist demands that result from an overvalued dollar. But as the Japanese sweep up down-at-heel technologists in the sunbelt like Fairchild Semiconductor, they face a hostile chorus of xenophobes in Silicon Valley who claim that the nation is selling off the silver.

That is not to say that the Japanese shun investment in developing countries. The question is whether the recipients really welcome the attention.

After the US, which has taken just over 30 per cent of the cumulative total of Japanese direct investment overseas, the biggest outlet has been Indonesia.

The Indonesian people, however, regard this inflow, whose cumulative total had reached $8.9bn by the end of 1985, with mixed feelings, as do people in other Third World countries. South East Asia may be the logical destination for Japanese investment in purely economic terms, but military history sits uncomfortably here with economic logic.

The other obstacle to a sensible international allocation of capital is the debt problem. Latin American countries are in the unenviable position of transferring resources from their own domestic economies to the rich, but increasingly indebted, US. That reflects the hangover after the petrodollar party, in which the big banks, abetted by Western politicians, enthusiastically pumped Opec's surplus money into Latin America without inquiring too closely whether the cash went on guns, productive investment, or capital flight. Credit went not to the most worthy candidates, but to those with the biggest appetite.

American politicians still seem more concerned about protecting the big banks from debt write-offs (and their own border with Mexico) than with the wider implications. In the absence of debt relief, an otherwise dynamic part of the world economy, and one of the main markets for American goods, has been neutered.

Why, you might ask, did the whole thing work more smoothly in the 19th century? The short answer is that Britain's pre-eminent position in the political and economic system provided a more stable framework. Crudely speaking, capital flowed freely, either because economic interests were complementary or because the implicit threat of gunboat diplomacy provided a non-economic mechanism for resolving conflicting interests.

Today political and economic power is more fragmented. The post-war trend towards economic interdependence and free capital flow means that countries can no longer pursue autonomous fiscal and monetary policies to good effect. But no one, except in extremis, is prepared to surrender sovereignty over domestic policy.

That is why, for example, the Group of Five (or was it six-and-a-half?) produced a mouse of a communiqué last week. International bureaucrats have spawned a splendid co-operative vocabulary, full of objective indicators and surveillance mechanisms to monitor each others' economies. But they are several jumps ahead of the politicians.

If we manage to eliminate the present payments imbalances in the world economy without foundering on the protectionist rocks, it will owe more to market forces, and to domestic policy adjustments engendered by pressure from voters, than to international co-operation. A sub-optimal conclusion, as the economists would say. But realistic.

JUSTINIAN

Happy birthday to me

ON FEBRUARY 28 1962 this column was born. Its origins lay not in the observable needs of Financial Times readers nor indeed in any assessment of the appetite of the newspaper reading public.

Its appearance rested on editorial intuition that the time was ripe for a weekly commentary on contemporary legal affairs, written in a style that studiously avoided the excessive Latinism of language so favoured by the legal profession.

The column's *nom de plume* was devised only in part to preserve anonymity of authorship (25 years later the identity of its prime author is an open secret, at least among the expanding world of legal journalism and among some lawyers). The use of the Emperor Justinian's name was no idle pin-pricking exercise. It was carefully considered for its aptness to the contemporary scene, even if it meant making a concession to the Latin world.

When Justinian became Emperor of the Byzantine empire in AD 527, he determined to revive the glories of the older Rome in law and empire. On his accession he appointed commissioners to collect and revise the surviving constitutions, made up of laws of the Roman republic, the edicts of magistrates and a great body of juristic writings.

Ultimately four works — the Institutes, the Digest, Code and Novels, which later came to be known as the *Corpus Juris Civilis* — were published. While they preserved much of the earlier Roman law, which otherwise would have been lost to mankind, they were undertaken in the spirit of reform. Their influence powerfully affected legal thinking, and the study of the law. They were adopted as the actual law by many European countries from the 10th century onwards.

Before 1962, law reporting of cases in the courts had for a long time been the exclusive preserve of the Times, which captured the vast majority of legal readership. The Times had a full-time legal correspondent whose main task was editing both the Times Law Reports and the reports produced by the Incorporated Council of Law Reporting. He wrote infrequently in the columns of the paper.

Other legal commentaries in newspapers and journals were sporadic, and mostly from outside contributors. In the early 1960s, both the Guardian and the Financial Times had begun to publish rival law reports, but the economic blizzard around Fleet Street and the demands on newspaper space saw their disappearance by the middle of the decade. The resumption of FT commercial law reports in the late 1970s was a welcome revival of a service to readers keen to receive up-to-date news of the law in action.

Justinian—the name was delightfully parodied by Private Eye as Justinina-for-the-money—entered the scene at the moment of optimum development of law relating to the supervision and control by the courts of governmental power. During and after the Second World War a deep gloom had settled over English administrative law. The courts and the legal profession seemed to have overlooked, if not forgotten, their past achievements in bringing to heel those who abused governmental power.

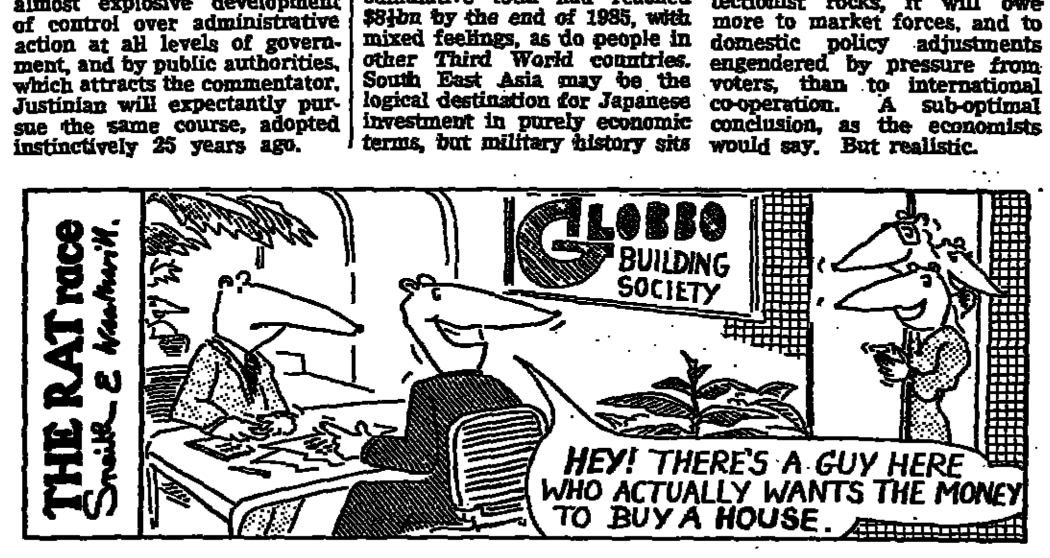
It was understandable that in wartime judges should permit the executive paramountcy of power. It was less understandable in the post-war period, with the flood of new powers and new jurisdictions that accompanied the welfare state, that courts failed to reassert their position.

In the early 1960s the mood changed dramatically. The courts began to hand down decisions which reinvigorated administrative law. First, the principles of fairness in ministerial and administrative decision-making were beginning to emerge, establishing the foundations of today's informal code of administrative due process. Second, the idea of unfettered administrative discretion was totally rejected. Restrictions on remedies were brushed aside whenever there was an excess of jurisdiction, and almost every discernible error in public administration came under judicial scrutiny and correction.

Lord Reid's plaintive remark in 1963 that "we do not have a developed system of administrative law" provided the clarion call to the judges, and he became the modern architect of such a system. In 1981 Lord Diplock was able to say that he regarded the progress made towards a comprehensive system of administrative law as having been "the greatest achievement of English courts in my time."

Justinian has sought over this quarter of a century to reflect that "greatest achievement of English courts," while at the same time not losing sight of important developments in other branches of both public law—for example the criminal *justice and penal systems*—and private law.

Today it is the expanding and almost explosive development of control over administrative action at all levels of government, and by public authorities, which attracts the commentator. Justinian will expectantly pursue the same course, adopted instinctively 25 years ago.



DIARY DATES

Finance

The following is a record of the principal business and financial engagements during the week. The board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

TODAY

COMPANY MEETINGS—
Barr (A. G.) 1306 Gallowgate, Glasgow, 11.00
Brooke Tool Eng., Cutlers Hall, Church Street, Sheffield, 12.00
Carlton Communications, Armourer's Hall, 81 Coleman Street, E.C., 11.00

BOARD MEETINGS
Finals:
Channel Islands and Intnl. Tst.
Jebsens Drilling
Palma Group
Rights and Issues Inv. Tst.
Task Force
Interims:
Astra Industrial
Green (Ernest) Partners
Space Planning Services
Trade Promotion Services
Tweefontein Utd. Colls.

DIVIDEND & INTEREST PAYMENTS—
Ahmanson (H. F.) 22cts.
American Brands Inc. 52cts.
Assoc. British Foods 2.2p
Body Shop Intnl. 1.8p
Bulmer (H. P.) 2.345p
Carlton Communications 8.4p
City Site Ests. 0.49p
Dixons Grp. 1.2p
Enserch Cpn. 20cts.
European Coal and Community 6¾pcBds. 1987 3¼pc
Ford Motor 65cts.
Great Amer. First Savings Bank 15cts.
Hardys and Hansons 13.1p
Hogg Robinson 5p
Holt Lloyd Intnl. 2p
Howden Grp. 1.28p
Ingersoll-Rand 65cts.
Normans Grp. 0.85p
RHM Intnl. Fin. NV 8pc Gtd. Bds. 1988 4pc
Richards 1.3p
SEET 1.6p
Union Carbide Cpn. 37.5cts.
Windsor Secs. 0.5p

TOMORROW

COMPANY MEETINGS—
Kelsey Inds., Kelsey House, Wood Lane End, Hemel Hempstead, Herts., 11.00
Spectrum Grp., Hunting Gate, Hitchin, Herts., 10.00
Sturge Hldgs., 30-32 St. Mary Axe, E.C., 11.30
Telecomputing 244 Barns Road, Oxford, 12.00

BOARD MEETINGS
Finals:
AMS Inds.
Allied Plant
Blagden Inds.
British Kidney Patients Assn. Inv. Tst.
Crowther (John)
Dares Ests.
Dean and Bowes
Fisons
Fleming Mercantile Inv. Tst.
Johnstone's Paints
Microvitec
Mount Charlotte Invsts.
Newage Transmissions
Provident Financial
Unilever
Unilever N.V.
Save and Prosper Gold Fund
STC
Tribble Harris
Interims:
Britannia Sec.
Caskot (S.)
Frogmore Ests.
Sinclaire (Wm.)

DIVIDEND & INTEREST PAYMENTS—
Conversion 9pc 2000 4½pc
M. and G. Dual Tst. Inc. 18.05p

WEDNESDAY MARCH 4

COMPANY MEETINGS—
Omnitech, 24 Austin Friars, E.C., 11.00

BOARD MEETINGS
Finals:
Commercial Union Assce.
General Accident
Midland Bank
Nichols (J. N.) (Vimto)
Tozer, Kemsley and Millbourn
Zambia Cons. Copper Mines
Interims:
Cons. Gold Fields
Fletcher Challenge
Haggas (John)
Instem
Lawtex
Macro 4
Medminster
Star Computer
Synapse Computer Services
Trans-Natal Coal

DIVIDEND & INTEREST PAYMENTS—
BFG Fin. BV Fltg. Nts. 1996 $157.81
Barclays Overseas Inv. Fltg. Nts. 2004 $142.98
Gold Fields Prop., 12cts.
Kelsey Inds., 6.25p
New Wits. 30cts.
Park Food Grp., 1.55p
Vogelstruisbult Metal 20cts.
Wiggins Grp. 1.25p

THURSDAY, MARCH 5

COMPANY MEETINGS—
Assoc. Fisheries, St. Ermin's Hotel, Caxton Street, S.W., 12.00
Grand Metropolitan, Hotel Intercontinental, Hamilton Place, W., 11.00
Talbex, Great Eastern Hotel, Liverpool Street, E.C., 10.00

BOARD MEETINGS
Finals:
Anglo Amer. Gold Inv.
Corah
Fife Indmar
Haywood Williams
Jaguar
Law Debenture
Lex Service
Radius
Royal Dutch Pet.
SPP
Shell Transport and Trading
TI
Interims:
Cons. Plants. Berhad
Galliford
Kleinwort Benson Intnl. Income Fund

DIVIDEND & INTEREST PAYMENTS—
Bank of Ireland Und. Fltg. Nts. $180.94
Chase Manhattan Cpn. Fltg. Nts. 2009 $159.38
Hongkong and Shanghai Banking Cpn. Cap. Und. FRN Sec. Ser. $80.47
Mountleigh 1p
Prudential Cpn. Fltg. Nts. 1995 $286.03

FRIDAY, MARCH 6

COMPANY MEETINGS—
Aspinall Hldgs., Chesterfield Hotel, 35, Charles St., W., 11.45
Batt Bros., 9 Cox St., Dundee, 12.00
Cardiff Prop., 1 Museum Place, Cardiff, 12.00
Mecca Leisure, Lords Banqueting and Conference Centre, St. John's Wood Road, N.W., 11.00

BOARD MEETINGS
Final:
Alliance Trust

DIVIDEND & INTEREST PAYMENTS—
Alcan Aluminium 20cts.
Bank of Greece 10¾pcLn. 2010 5⅜pc
Berisfords 1.9p
Blue Circle Inds., 9pcDb. 1992-97 4½pc
Cromeno Consumer Prods. 7¾pcLn. 1987-1992 3⅞pc
Dares Ests. 8pcLn. 1992-97 4pc
Ford Intnl. Cap. Cpn. 6pcCnv.Ln. 1981-87 3pc
Joseph (Leopold) 9¼pcLn. 1997-2002 4⅝pc
Redland 7½pcDb. 1990-95 3¾pc
Rustenburg Plat. 90cts.
Sears Eng. 8¼pcDb. 1987-92 4⅛pc
TR Pacific Basin Inv. Tst. 4½pcPf. 1.575p
Telecomputing 0.85p
Thorn EMI 5p
Tyzack Turner 3p
Vibroplant 4.25p
Waddington (John) 10¾pcDb. 1990-95 5⅜pc
Watney, Mann and Truman 7¼pcLn. 1994-1999 3⅝pc. Do. 8pcLn. 1990-95 4pc
Westpool Inv. Tst. 0.35p
Whitbread 9¼pcDb. 1991-96 4⅝pc
Yorkshire Chems. 10pcDb. 1991-96 5pc

SATURDAY, MARCH 7

DIVIDEND & INTEREST PAYMENTS—
Barclays Bank 7½pcLn. 1986-91 3¾pc
Sainsbury (J.) 7¼pc1stMort.Db. 1987-92 3⅝pc

SUNDAY, MARCH 8

DIVIDEND & INTEREST PAYMENTS—
Renold 7¼pc2ndDb. 1992-97 3⅝pc
Treasury 10pc 2003 5pc

Parliament

TODAY
Commons: Debate on Welsh Affairs. Motion on Milk and Dairies (Special Designation) (Charges) Regulations.
Lords: Coal Industry Bill, Third Reading. Territorial Sea Bill, Report. Debate on the inquiry report into the Sizewell nuclear power plant proposal.
Select Committees: Education, Science and the Arts—Subject: Government expenditure plans 1987-88 to 1989-90. Witnesses: Education Department officials (Room 15, 10.45 am). Parliamentary Commissioner for Administration — Subject: Reports of the Health Service Commissioner, 1985-86. (Room 6, 4.30 pm).

TOMORROW
Commons: Local Government Bill, Second Reading. Remaining stages of the Rate Support Grants Bill.
Lords: Ministry of Defence Police Bill, consideration of Lords amendments. Banking Bill, Second Reading. Fire and Safety of Places of Sport Bill, Report.

WEDNESDAY
Commons: *Remaining stages of* the Abolition of Domestic Rates (Scotland) Bill.
Lords: Short debate on the brain drain of qualified married women. Short debate on the importance of the English Language and the case for making it easier to learn. Billiards (Abolition of Restrictions) Bill, Second Reading. Unstarred question on Dyslexia.
Select Committees: Foreign Affairs—Subject: Cultural diplomacy. Witnesses: GB-China Centre; British Museum. (Room 19, 10.30 am). Welsh Affairs—Subject: Condition and repair of privately owned housing. Witness: Committee on Welsh District Councils (Room 18, 10.30 am).
Defence—Subject: Implications for the UK of strategic defence. Witnesses: MoD officials (Room 16, 10.50 am).
Energy—Subject: Effect of oil and gas prices on North Sea activity. Witnesses: Rt Hon Alick Buchanan-Smith MP, Energy Minister of State and officials (Room 8, 4.15 pm) Employment—Subject: Skills shortages. Witnesses: UCATT and TGWU (Room 8, 4.15 pm).
Public Accounts — Subject: Damages in tort; Housing benefits. Witness: Mr Christopher France, DHSS (Room 16, 4.15 pm). Social Services—Subject: Problems associated with AIDS. Witnesses: Professor Michael Adler and Dr David Miller, Middlesex Hospital Medical School; Dr Charles Farthing, St Stephen's Hospital; Dr Tony Pinching, St Mary's Hospital Medical School (Room 21, 4.15 pm).
Transport—Subject: Decline in the UK registered merchant fleet. Witnesses: Dr M. Garratt, Liverpool University and Mr P. Marlow UWIST; Dr R. Hope (Room 17, 4.15 pm).
Foreign Affairs — Subject: Cultural diplomacy. Witnesses: C.E.C.; Publishers Association (Room 15, 5 pm).

THURSDAY
Commons: Completion of the remaining stages of the Abolition of *Domestic Rates (Scotland)* Bill.
Lords: Local Government Finance *Bill*, Report. *Pilotage Bill*, Third Reading.

FRIDAY
Commons: Private Members' *Motions*.

Engineers urge action on pension age

LACK OF government action over a common state pension age for men and women is delaying dealing with a problem that will get worse the *longer it persists*, according to Dr James McFarlane, director-general of the Engineering Employers' Federation, in a message to the Federation's 5,000 member-companies.

"No hint of its intentions, let alone a decision, has been given by the Government," he writes in his column in the federation's journal. "And it is highly unlikely that we shall hear anything before the general election."

From November this year, Dr McFarlane *points out*, employers will be obliged to allow women to work on to the same retirement *age as men*. It would then be unlawful, under the 1986 Sex Discrimination *Act*, to retire a *woman* on *grounds of age*, at an age when a man in comparable circumstances would not have been *dismissed*, or vice-versa.

Dr McFarlane believes the act poses more questions than it answers and will cause some industrial relations problems—purely because a common state pension age was not tackled at the same time.

Excel expands

IN LESS than eight months *since establishing* its own establishing its own business, Excel Wound Components (formerly STC's winding business in West Rd, Harlow, Essex) are expanding with an agreed take-over of Marinair (Radar) of South Rd, Harlow.

Marinair will become a wholly owned subsidiary of Excel's and will continue to operate under its own name, retaining the existing management team and all employees.

The move *should strengthen* Excel's position as a leading supplier to the telecommunications and professional markets of *specialised* windings and EHT multipliers.

Trade fairs and exhibitions: UK

March 3-4
USM Exhibition (01-493 0000) The Brewery, EC1

March 3-5
Business Telecom Exhibition (01-868 4466) Barbican Centre

March 4-6
Computers in Clothing Exhibition (01-467 7728) Harrogate

March 7-8
British Chemists Exhibition—BRITCHEM *(01-444 1777)* NEC, Birmingham

March 8-11
British Ski Trade Exhibition—SKI-EX (0922 24661) Harrogate

March 11-13
Computers in Retail and Retail Technology Exhibition (01-222 9090) NEC, Birmingham

March 14-15
Wedding Exhibition (041-332 6776) G-Mex Centre, Manchester

March 15-17
British Footwear Fair *(01-739 2071)* NEC, Birmingham

March 17-19
International Powder and Bulk Solids Technology Exhibition—POWTECH (01-686 5741) *G-mex Centre, Manchester*

March 22-24
International Cycle and Leisure Fair—CYCLEX (01-390 2211) Olympia

March 24-26
International Food and Drink Exhibition (031-225 5486) *King's Hall, Belfast*

March 24-27
Information Technology and Office *Automation* Exhibition and Conference—INFO (01-647 1001) Olympia

April 2-8
British International Antiques Fair (021-780 4171) NEC, Birmingham

April 8-9
Better *Made in Britain 5:* Clothing, Knitwear and Footwear; 6: Building Components and DIY *(01-211 7153)* Kensington Exhibition Centre

April 14-16
International Trenchless Construction for Utilities—Conference and Exhibition (0823 778311) Kensington Exhibition Centre

Overseas

Current
International Fairs: Food; Materials Handling and Warehousing: Packaging and Printing. *(021-455 9600)* (until March 3) Brno

March 8-11
Winter Sports Equipment Exhibition *(01-439 3964)* Grenoble

March 15-21
International Spring Fair (01-248 7013) *Leipzig*

March 25-29
International Spring Trade Fair (01-977 4551) Vienna

April 3-9
International Chemical and Petrochemical Industry Exhibition (01-486 *1951*) Beijing

April 9-12
International Toy Fair—*SPIEL (01-977 4551)* Vienna

Business and Management Conferences

March 4
The Royal Institute of International Affairs: *Korea* and the UK: a broadening relationship (01-930 2233) Chatham House, SW1

March 4
CBI: Don't forget Aunt Agatha—keep your small shareholders informed (01-379 7400) Centre Point, WC1

March 6
Longman *Seminars:* Pension Fund Surpluses (01-242 4111) London Press Centre

March 11
City *Dialogue:* Financial engineering in property (01-937 1548) Savoy Hotel, WC2

March 16
Campaign / Admap seminars: Monitoring advertising performance—the annual review of the best practice (01-379 6576) Cavendish Conference Centre, W1

March 17-18
Insurance and Reinsurance Research Group: Airline insurance—where next? (01-236 2175) *The* White House, NW1

March 19-20
FT Conferences: *Pensions—The* time for action (01-621 1355) Hotel Inter-Continental, W1

March 26
Longman Seminars: EEC De-*regulation* in the airline industry (01-242 4111) Hotel Inter-Continental, W1

March 31
NEDC/FT *Conferences:* Enterprise, success and jobs—*company* success *(01-621 1355).* Queen Elizabeth II Conference Centre, SW1

April 1
The Institute for Fiscal Studies: The 1987 Budget (01-636 3784) Park Court Hotel, W2

April 1
Longman Seminars: Merger accounting—financial *reporting* issues (01-242 4111) Cavendish Conference Centre, W1

April 2-4
The Rural Life Conference—action with communities (01-636 4066) Royal Agricultural College, *Cirencester*

April 6
International Business Communications: 6th annual television planning and buying seminar (01-236 4080) Marriott Hotel, W8

April 8-9
FT Conferences: Technology in the securities market—the next five years (01-621 1355) Hotel *Inter-Continenal*, W1

April 9-10
Institute for International Research: Selling personal financial services within the new *regulatory* framework (01-434 0301) Park Lane Hotel, W1

April 9-10
Frost and Sullivan: Project management for data processing operations (01-730 3438) Sullivan House, SW1

April 9
CBI: EFTPOS—the payment card revolution (01-379 7400) Centre Point, WC1

April 29
NEDC/FT Conferences: Enterprise, success and jobs—people, the key to success *(01-621 1355)* Queen Elizabeth II Conference Centre, SW1

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there has been no change in the details published.

The rising yen

Why Aiwa set up in Singapore

Stephen Butler explains the Japanese electronics group's untypical behaviour

Heitaro Nakajima (left), Aiwa's president who, together with Hajime Unoki, cut production at the Japanese factories, switching to new facilities in Singapore (centre).

A CRITICAL turning point in the history of Aiwa, the Japanese audio electronics company, was reached on July 7 1986. On that day, workers, instead of manning the production lines of Aiwa's two Japanese factories, met their managers and were told that the company was seeking 700 voluntary redundancies, roughly one-third of the production line jobs.

These were the first redundancies, not to speak of temporary lay-offs, in the 35-year history of the company. They flew in the face of the unwritten understanding that had underpinned much of Japan's famed success at promoting harmonious industrial relations—that a company would always take care of its employees, even during downturns in the economy.

For Aiwa the announcement was the culmination of months of sometimes acrimonious debate inside the boardroom, and was only the first of a series of drastic steps aimed at turning around a company that had been in serious decline for nearly two years.

Aiwa's troubles were made dramatically worse by the steep appreciation of the Japanese yen that began in October 1985. In the space of half a year, Aiwa's cost of production in Japan rose by 40 per cent in dollar terms, leading to a serious crisis in a company that exports about 50 per cent of its output.

A sluggish year in 1985 had been marked by declines in profits: 1986 was a rout, with sales plunging by 25 per cent to Y57bn (£240m) while the company's after tax loss reached Y5.7bn.

Now, says Hajime Unoki, Aiwa's deputy president, the company has begun to turn around. Although Aiwa may finish 1987 in the red, it has begun to show a profit in individual months, and Unoki is confident about 1988. The cause of this happy outlook has been a massive and rapid relocation of production overseas, to Singapore.

Aiwa is a remarkable example of a Japanese company that has changed direction with startling speed. It has rapidly shed policies and practices that have been fundamental to the Japanese success formula. It is moving forward and not looking back.

Aiwa suffered from the same pressures that have hit all export-oriented Japanese companies, although its high rate of export left it more vulnerable than most to the rise of the yen, and its reaction has been swifter and more extreme.

Aiwa is a medium-sized company that has earned a worldwide reputation as a specialist in audio products — cassette and compact disc players and compact stereo systems. It has just begun sales of an 8mm video camera, and was the first company in the world to announce marketing plans for the controversial digital audio tape (DAT) recorder.

Sony owns nearly 53 per cent of Aiwa and this gives Aiwa access to Sony's extensive research facilities. Key components of Aiwa's 8mm camera and its DAT players are manufactured by Sony. Aiwa does, however, maintain its own research and development staff, which independently designs products that frequently compete against Sony products.

Unoki was sent to Aiwa last March as a "fix-it" man, after serving for many years as Sony's managing director in charge of overseas sales. He says he had a clear idea of where he wanted to take Aiwa from the day he set foot in its Tokyo headquarters.

Aiwa was then running into the ground. When sales began to slacken off the previous year, the management responded instinctively by squeezing back production in its two overseas assembly plants, in Singapore and in Gwent, Wales, in order to protect jobs at Aiwa's two Japanese factories, in Utsunomiya and Iwate, both of which are north of Tokyo.

This move left the company highly exposed. Its overseas capacity was poorly utilised, while audio products were being churned out at home on a very high cost basis. As a result of efforts to keep the home workforce busy, inventory began to pile up.

Unoki took about three weeks for the obligatory fact finding, and then confronted the board. Jobs would have to be eliminated at home, he told the board, and production expanded overseas.

The proposals went down poorly with many board members, who wanted to close down overseas operations in order to protect what they saw as the very essence of the company—its Japanese employees.

"They said it was against the Japanese tradition," says Unoki. "They told me I was un-Japanese."

After nearly two months of debate, the board finally gave in and agreed that 700 jobs would have to go. This was still short of the 1,000 jobs that Unoki wanted to eliminate.

In secret the board prepared an elaborate retrenchment programme that included individual counselling with employees about their future with Aiwa, and prospects for obtaining jobs elsewhere. Employees would be offered early retirement and generous severance terms. Employees who resigned within two weeks of the announcement would receive extra bonuses, depending on their job.

Within four days of the announcement, Aiwa had reached its target of 700 resignations; at the end of two weeks, over 1,000 employees had left voluntarily, much to Unoki's relief. He would not have to confront the board again. Today, about 1,200 production jobs have been eliminated in Japan.

By moving quickly, Aiwa had got the timing right. Unemployment had not yet become a widespread problem in Japan, and employees assumed they would quickly find another job. Rather than take a chance on an uncertain future with Aiwa and because they knew redundancy would be compulsory, if necessary, they did not resist leaving.

The effect of the resignations was immediate; production fell by two-thirds because job losses were sprinkled randomly around the production lines. Inventories began to drop.

The day after the fateful announcement, Unoki flew to Singapore with the company president, Dr Heitaro Nakajima, a former Sony man who is a technical and production specialist.

The decision to step up production at the existing Aiwa factory in Singapore was easy, but the site was too cramped. However a new production site was found in Singapore's Jurong industrial estate.

An old warehouse on the site was completely renovated in just three and a half months. Production lines in Japan were closed down one at a time, taken apart, and loaded on to aircraft to be reassembled and up and running just six weeks later in Singapore. Seven months after the redundancies that sharply cut into production in Japan, Aiwa's worldwide production has been fully restored, at a much lower cost basis, and with inventories cut to reasonable levels.

Indeed, Aiwa has been completely transformed and now retains few of the characteristics once thought to be typical and essential for Japanese companies.

"Japan was a manufacturing country, with a high volume of exports," says Unoki. "But no longer. It is changing from a manufacturing country to a consuming country."

Ironically Aiwa now has a stake in the further appreciation of the yen. Japan has become Aiwa's most profitable export market, the destination of about 50 per cent of equipment produced in Singapore. If the yen continues to appreciate, Aiwa plans to push the ratio up to 75 per cent.

Unoki says that Aiwa's commitment to Japan now goes no further than the prospects of earning a profit there.

"You cannot row a boat for a long time against the stream," he says. "Management must find the direction of the stream and put the boat in that direction."

That direction has led to the mothballing of its Utsunomiya factory, which is closer to Tokyo. The site might be used if Aiwa decides to diversify into high technology production that would be feasible in Japan, but otherwise is a property investment in an area of fast rising prices.

Employment at its Iwate factory has been cut from 800 to 470, and the factory has been hived off and incorporated as a wholly-owned Aiwa subsidiary. This was done to allow the company to cut wages, to pay below the normal Aiwa standard.

The factory now makes 8mm video cameras, DAT recorders, and some high value-added audio components. Unoki says the parts and components for these products are still not available locally in Singapore and that would make it uneconomic to move out of Japan. But he will move as quickly as he can.

In 1986 Singapore accounted for about 12 per cent of Aiwa's worldwide production. By the end of the year, it will account for over half of the company's output.

Singapore gives Aiwa the flexibility that it could not get inside Japan, as well as an excellent parts supply base and supporting infrastructure. Aiwa will have about 1,100 Singapore employees when local production is up to full speed.

Aiwa has entered negotiations with Singapore's Economic Development Board for a "pioneer status" designation, which would provide tax relief for a planned research and development unit. Singapore engineers have already been hired and are in Japan for training. Their salaries are about one third that of a Japanese engineer.

Unoki envisages a completely integrated Singapore operation in which research and product design all take place at the manufacturing site. Distribution and administrative staff would follow.

What will be left for the Japanese staff of engineers, salespersons and administrators? This is a question for which Unoki does not yet have an answer. Aiwa has no plans to cut back on its Japanese management staff, but logically this must follow unless ways are found to diversify.

Aiwa is looking at a basketful of ideas but has not settled on anything. Some proposals, such as a move into industrial electronics, would require a huge, risky investment, and may never happen.

Aiwa now looks set to survive the wrenching effects of the yen's appreciation. But it may become difficult before too long to continue calling it a Japanese company.

Management abstracts

The safety representative regulations, B. Barratt and others in Health and Safety at Work (UK), November 1986 (3½ pages).

Reports a survey of employee participation at 33 workplaces following implementation of the Safety Representatives and Safety Committees Regulations 1977; shows that in all cases a safety policy had been established with employee involvement, a committee structure and inspection system initiated and written records of safety matters kept. Assesses costs and benefits, and suggests that, without management commitment, there will be little improvement in health and safety but simply an expensive paper-chase.

Why some factories are more productive than others, R. H. Hayes and K. B. Clark in Harvard Business Review (US), September/October 1986 (8 pages).

Describes a study of 12 factories to identify variables that influence productivity at plant level, which found that performance measurement systems (all based on traditional standard costs) observed—and sometimes even falsified—actual performance details. The researchers applied a total factor productivity measure (ratio of total output to total input), using constant—instead of current—prices; shows how this identified the real levers for improving performance and raising TFP—such as capital investment, waste reduction and reducing work-in-progress. An appendix provides details of the research method and the TFP calculation.

Expansion abroad by European firms, J. Arbose in International Management (UK), November 1986 (6 pages).

Presents results of a survey of European executives to assess various countries' focus on globalisation of business. Always quite interesting to compare with what others are up to, in this respect, Belgium is doing most to improve its global image, France tailors more products for specific markets, Turkey is seeking to create more global products, and Sweden feels most limited by non-tariff barriers.

Make or buy—a key strategic issue, D. Ford and D. Farmer in Long Range Planning (UK), Oct 86 (9 pages).

Looks at how the decision to make or buy-in is taken; offers an historical perspective, and finds that there are three main approaches: an operational/cost-based approach, taken individually on the basis of cost savings or operational advantage; a business approach, using rather broad criteria; a policy approach, used when a company has taken a broad overview and decided which activities should be carried out internally and which externally; offers some case examples to show how the issue is handled.

Charging-out computer costs, P. Sweet in Computing (UK), 9 Oct 86 (2 pages).

Discusses the concept of charging user departments for computing resources; notes advantages, eg it forces DP departments and users to be more stringent when assessing new projects, and disadvantages, such as the need to work out a charging system which is fair. Looks at how Excess Insurance and Nabisco use chargeout systems; considers the fortunes of IMI Computing, which became an internal profit centre within the IMI Group in 1973 and—ten years later—became a separate limited company.

Training for a new computer system, B. Muller in Datamation (USA), 1 Sep 86 (4 pages).

Details the training programme devised by Solar Turbines when transferring from a manual to a computerised purchasing system, necessary as staff were both computer illiterate and "phobic." Shows how the training was broken down into three phases to match the introduction of the new system and how workers were trained to, in turn, train their co-workers. Notes the use of videotapes and the programme's main flaws, especially the lack of terminals to provide hands-on experience.

Overcoming "temporal myopia," R. M. J. Rees in Management Accounting (UK), Nov 86 (3 pages)

Defines "temporal myopia" as the difficulty managers have in considering possible future situations/events outside their own experience; suggests that the present turbulent business era heralds change — one way or the other. Discusses the "economic wave" theory (by Kondratieff) who predicted economic cycles with a frequency of 48/60 years; suggests that scenario development is a useful method of thinking about the future, and indicates managerial actions necessary if an economic downturn should occur, and is to be survived.

These abstracts are condensed from the abstracting journals published by Anbar Management Publications. Licensed copies of the original articles may be obtained at a cost of £4 each (including VAT and p & p: cash with order) from Anbar, PO Box 23, Wembley HA9 8DJ.

Contracts & Tenders

REPUBLIC OF THE SUDAN CIVIL AVIATION AUTHORITY

NOTICE

PREQUALIFICATION OF CONSULTANTS

1. Interested firms are invited to submit statements of interest and information on post experience and qualifications to provide professional engineering services for design review and construction supervision of a new airport proposed to be constructed at Port Sudan. The main components of the project would be aircraft manoeuvring area, terminal buildings and associated services; aeronautical telecommunications and navigational aids. The project is to be financed by the Government of the Sudan through loans extended by the Saudi Fund for Development and the Islamic Development Bank. The interested firms should submit to the Director General, Civil Aviation Authority, P.O. Box 430, Khartoum, Telex 22650 DGCA SD, statement of show of interest along with information on their general capabilities and past experience in engineering design and supervision with special reference to their experience in the fields of airports, highways, urban planning, etc. A copy of all documentation should also be forwarded to the Saudi Fund for Develoment, P.O. Box 1887, Riyadh 11441, Saudi Arabia, Telex 401145 SUNDOQ SJ.
2. Based upon evaluation of the experience and qualifications of firms submitting statements indicating interest, a short list of consultants would be prepared for the purpose of inviting consultancy proposals.
3. The statements of interest and supporting documents should reach the Director General, Civil Aviation Authority, Khartoum, not later than 28th March, 1987.

TUPRAS

TURKISH PETROLEUM REFINERIES CORPORATION
PREQUALIFICATION NOTICE
FOR
ENGINEERING, DESIGN, PROJECT MANAGEMENT ASSISTANCE AND PROCUREMENT SERVICES OF
HYDROCRACKING COMPLEX AT ORTA ANADOLU REFINERY

Turkish Petroleum Refineries Corporation (Tupras) wishes to install a Hydrocracking complex including Hydrocracking, Hydrogen, Sulphur, Sour Water Stripping and Amine Units at Orta Anadolu Refinery.

The Hydrocracking Unit will have a capacity of 14 500 bpsd (fourteen thousand five hundred). Hydrocracking and Hydrogen *Units shall utilize the technology licenced and provided by UOP.* The contractor shall be responsible for detailed engineering, design, procurement services and project management assistance of Hydrocracking and Hydrogen Units. The responsibilities of the contractor shall extend to cover Sulphur, Sour Water Stripping and Amine Units including also Process Design activities.

The contract for the work is open to international competitive bidding. Interested contractors, with minimum of two (2) units designed and at least one successfully in operation, are invited to submit a letter of intent not later than March 23 1987 to:

Tupras
Turkish Petroleum Refineries Corp
Engineering and Economical Research Group
Ref: Hydrocracking Project
PO Box 211-212
41002 IZMIT/Turkey
Telex:33152 IPIZ TR, 33153 IPGE TR
33154 IZGE TR, 22285 UMIP TR
Fax: 9 (211) 33944

Detailed prequalification questionnaire will be sent to interested contractors within 10 days after receipt of letters of intent.

Company Notices

NOTICE TO HOLDERS OF EUROPEAN DEPOSITARY RECEIPTS (EDRs) IN MITSUI & CO., LTD.

Further to our notice of December 30, 1986 EDR holders are informed of the free distribution of shares (1 new for each 10 old). EDR holders are informed that the new shares are now available for delivery and should be claimed by presenting Coupon No. 37 to the Depositary or the Agent. EDRs will only be issued in Authorised Denominations of 1,000 shares, therefore any EDR holder not able to present coupons making-up an Authorised Denomination will receive the net proceeds of the sale of their entitlement in United States Dollars pursuant to Condition 5 of the Terms and Conditions.

Depositary:
Citibank, N.A.
336 Strand, London, WC2R 1HB
Agent:
Citicorp Investment Bank (Luxembourg) S.A.
16 Avenue Marie Therese
March 2, 1987

SCOTTISH EQUITABLE LIFE ASSURANCE SOCIETY

Notice is hereby given that the Annual General Meeting of the Society will be held in the Society's Head Office No. 28 St Andrew Sq. Edinburgh on Thursday, 19th March 1987 at 12.30 pm to consider the Accounts and Balance Sheet and Reports of the Directors and the Auditor, to elect Directors, to determine the remuneration to be paid to the Directors and to reappoint the Auditor.

A member of the Society entitled to attend and vote at any Annual General Meeting is entitled to appoint another person to attend and vote instead of him. Proxies must be lodged at the Society's Head Office not less than 48 hours before the time for holding the Meeting.

By Order of the Board
D. A. BERRIDGE
General Manager
28 St Andrew Square
Edinburgh

AKRANES AND BORGARFJORDUR HEATING CORP.

US$10,000,000 Floating Rate Notes Due 1995

In accordance with the terms and conditions of the Notes, notice is hereby given that for the interest period from February 27, 1987 to August 27, 1987 the Notes will carry an interest rate of 6⅝% per annum.

The interest payable on the relevant interest payment date, August 27, 1987 against coupon No. 5 will be US$32,994.79 for each Note of US$1,000,000.

The Agent Bank
KREDIETBANK
S. A. Luxembourgeoise

ELECTRICITE DE FRANCE (EDF)

US$400,000,000

Floating Rate Notes due February 1999

The applicable interest rate for the period beginning on February 27, 1987 and ending on August 28, 1987 as fixed by the Reference Agent is 6¼ per cent per annum namely US$331.77 by the denomination of US$10,000.

Simmer and Jack Mines Limited

Reg. No. [illegible]
(Incorporated in the Republic of South Africa)

Summary of 1986 results and dividend declaration

[illegible]

THE ARTS

Architecture/Colin Amery

Changing times in Fleet Street

Fleet Street proper begins at the site of Temple Bar where a prickly looking griffin surmounts a memorial by Sir Horace Jones, put up in 1880 when Wren's great gate was moved out of London to languish in Theobalds Park. That band of warriors the Temple Bar Trust struggle nobly to return the Wren arch to the City and there is every chance they will be able to incorporate it in the major re-building planned for the Paternoster site to the North East of St Paul's.

Fleet Street is now undergoing radical changes as the great printing operations of the major newspapers move into Dockland. The inevitability of the spread of large office developments on the back land behind both sides of the street has been accepted, and indeed encouraged, by the City Corporation. Fortunately the whole of Fleet Street is in a Conservation Area and the declared policy of the City's Local Plan is to "preserve and enhance the character and appearance of conservation areas."

Fleet Street deserves special attention because it remains one of enormous architectural richness and character. Its width and scale still suggest it is an old route into an ancient city. The sense of being on a ridge is still there with a feeling of the land sloping southwards to the Thames.

Much used to be written about that elusive quality, "townscape," which is that successful gathering together of buildings and the spaces in between so that they add up to a character-ful place. Fleet Street has just the right townscape qualities. Although it has some large buildings the variety and, on the whole, appropriate scale make it a place which feels comfortable and free of any sense of dominance by giant blocks. It is still a street where clocks hang out across the pavement from Victorian office buildings and stylish gateways lead into the delights of the Temple—one of the most agreeable parts of the City.

One quality that is doomed is the sense of a street dedicated to one activity—the trade of the word and printing. From 1500, when Wynkyn de Worde set up his press in Shoe Lane, there have been printers in this area. Royal printers, ecclesiatical printers, printers of scandal sheets—it was inevitable that the first newspapers would be printed here and in the 18th century The Daily Courant was soon followed by The Morning Chronicle and The Diary—all published in the vicinity of Salisbury Square.

Newspapers need places to meet and gossip and drink and Fleet Street, from El Vino's to the greasy spoon cafes, provides plenty of private parlours. There is, although many of the printers and journalists have gone to Dockland or been scattered in the capital, still a sense of great activity about Fleet Street Messengers, lawyers, clerks do crowd the pavements and pubs and there is even a sprinkling of residents left.

The future of Fleet Street depends upon finding new uses to fill the former grand halls of the Press.

The combination of Big Bang and the dispersal of newspaper printing means that today Fleet Street is the growth area for the financial businesses gradually slipping to the west. Behind some of the listed facades there are going to be dealing rooms and the bleep of computers where the compositors were. The Daily Telegraph's move to Dockland has resulted in a scheme that keeps the 1928 neo-Egypto-Gregian block, by Elcock and Sutcliffe with Thomas Tait, while allowing substantial office development behind. Rightly, I think, the City Planning Committe have approved the idea of low blocks for Goldman Sachs rather than towers of unsuitably small offices.

As the land here slopes to the south it is more appropriate to build the taller blocks on the south side of the street than the north. Recently the Telegraph was listed and the restoration of the entrance hall owes a great deal to the advice offered by the Corporation. The Telegraph has only a faint whiff of Art-Deco, not so the more raffish Daily Express which is probably the best newspaper building on the street.

The Express commissioned Sir Owen Williams to design their black glass palace in 1931. It is all smooth and sleek with never a squared-off corner. The entrance hall, with all its moulded metal decoration, is exceptional for London and almost as stylish as an Art-Deco interior in New York. It was described as "atrocious" by Pevsner.

On the other side of the street, architects YRM are putting the dealers behind some of the existing façades once occupied by News International. The printing works on Bouverie St will go. Closer to the river, but influential on the activity in Fleet St, Morgan Guaranty is developing behind the listed City of London School. Its bankers will walk through the old school halls before they settle down for a day in front of the screens. The long-empty site at the foot of Ludgate Hill on the south side which is disected by Pilgrim St is likely to be sold and developed soon in conjunction with the massive plans for the Snow Hill/Holborn Viaduct railway development. If a Parliamentary Bill is passed to put the railway underground, major changes follow.

It is likely that the familiar railway bridge over Ludgate Hill will vanish and a very large redevelopment running almost from Blackfriars to Farringdon will result. This scale of office growth on former railway land may well help allow the retention of the architectural variety and the mixture of uses in Fleet St.

It is to be hoped devoutly that the liveliness of Fleet St can be continued and its scale respected. It would be tragic if this vital link between the City and the West End became smothered by dead slabs of commerce.

Figaro/Festival Hall

Max Loppert

Glyndebourne came to South Bank on Friday evening. Having recently recorded Le nozze di Figaro for EMI, Bernard Haitink, the London Philharmonic, and The Glyndebourne Chorus reassembled on the Festival Hall platform to repeat the performance "live." The cast, very largely that of the opening Figaro at the 1984 festival (Anne Mason's Marcellina the only important newcomer), was doubly "in role"—because memories of those stage performances were clearly still operative, and because now standards had been put to the exacting test of a recording studio.

The result was a most elating, engaging, and warming Figaro "production." It gave, indeed, alarming cause to ponder how unnecessary (in, admittedly, the right circumstances) sets, costumes, and stage business can be. There were neat, not over-fidgety episodes of minor platform activity, but it was in the tone-and-word characterisation of the singing that the great comedy was unfolded, properly aided by facial mobility of various delightful kinds. A platform lineup that covered in one moment the broad self-satisfaction of Artur Korn's notably well sung Bartolo, the piebald malignity of Ugo Benelli's Basilio, the elfin joie-de-vivre of Faith Esham's Cherubino, the swaggering complacency of Richard Stilwell's Count, and the boozy braggadoccio of Federico Davia's Antonio was in itself a visual resumé of some of the opera's keenest conflicts.

Whether such dramatic sharpnesses will be detectable when the records are published is hard to guess. For Mozartian "great singing," Friday's concert was perhaps a little less likely to remain in the memory. There was, though, some very good Mozart singing. Two melting, tender airs from Miss Esham and then Felicity Lott's poised, finely inflected, long-breathed "Dove sono" were probably the evening's high spots. After his disappointing Giovanni of last summer it was good to find Mr Stilwell back on form. Gianna Rolandi's Susanna was bright, intelligent, very efficient, a little hard and unromantic in "Deh, vieni."

For me, however, one single performance stood out with brilliant distinctness: singing, acting, diction were all one in Claudio Desderi's mercurial account of the title role, and the intensity of feeling (bitter, triumphant, finally glowing with happiness) that he distilled into all parts of the whole was almost too much for comfort—the Count would surely have dismissed so alarmingly quick and calculating a Figaro from his service long ago. As ever in this opera, native Italian delivery (which Mr Desderi shared and exchanged in virtuoso exactitude with Basilio and Antonio) is a matchless asset. The voice, not large and not intrinsically beautiful, is used with immense resourcefulness.

Haitink and the LPO were keyed up to their most characteristic brand of incisive, rhythmically muscular articulation. During the first act and a good part of the second, one feared that the excitement of the occasion was spilling over into restlessness; there was a lack of that smiling repose which even drawn Figaro should also have. But in the long Act 3 finale the alternations of tension and relaxation were managed with wonderful deftness, and from then on the conductor displayed all of his special Mozartian mastery. There should be brief mention of Martin Isepp's brilliant continuo playing: the welcome touches of appoggiatura and embellishment; and, in Act 4, not just the inclusion of Marcellina's and Basilio's arias but —better still—their justification.


Della Jones

The Trojans/New Theatre, Cardiff

Ronald Crichton

Three leading regional companies, Opera North, Welsh National and Scottish, share the remarkable new production of The Trojans of Berlioz, sponsored by IBM United Kingdom Trust. The whole work was seen on Saturday at the New Theatre, Cardiff. The first part, The Capture of Troy, had been given last September at Leeds, when it was reviewed here by Max Loppert. The Cardiff audience was held willingly captive from five in the afternoon until something like 10.30—performances, at least on the present tour covering Liverpool, Birmingham, Oxford, Southampton and Bristol, are for obvious reasons confined to Saturdays.

The chance of seeing the unique (and intensely enjoyable) opera in such a stimulating performance in six major cities is something to be grateful for and to wonder at. Sir Charles Mackerras, WNO's new director of music, launches this stage of his distinguished career with typical vitality, clarity and thoroughness of preparation. Orchestra and chorus were on their keenest form. So many people contribute to a staging of an opera of these epic dimensions that one can't hope to do more than register general but warm gratitude.

So far, the three acts which make up the longer and later part of the opera, The Trojans at Carthage, are not the equal in Tim Albery's production of the remarkable Capture of Troy, where the feeling of slightly shrill near-hysteria is as surely caught on the stage as it is in the orchestra pit. The Royal Hunt, one of the composer's finest pages, so hard to stage that it is often played as an interlude, is treated here in a boldly original way that may surprise but is certainly more successful than any other version I have seen. Listing details would make it sound deprecating in a way not intended. One may, though, question the sense of a relief map of Africa hung in a way which must, I would judge, conceal the position of Carthage from at least half the audience.

The production is less at home in Africa than in Asia Minor. The creamy white box with starry blue apertures (not as nice as that sounds), designed by Tom Cairns and Antony McDonald, reflects only a tithe of the music's intense if pointful languours. The costumes, an understandable but clumsy mish-mash of periods including tutus for some dancers, often contradict what we hear. The last act, set beneath the white cliffs of Carthage, needs urgent rethinking, especially the central episode supposedly inside the palace, when the distraught Dido has tantrums, rolling about on an old second-hand bed, throwing scarlet bed-linen at her courtiers.

Even the least happy, and surely improvable, inventions do not detract fatally from the power, originality and eloquence of the score. For all the punch and fire he draws from the WNO orchestra, there is much more than superficial brilliance in the reading of Mackerras. The Trojan March is given the amount of resonance the stage action needs and no more. But there are flashes of anger and grief and (in the ghost scenes) eerie colours that lacerate and chill. The important off-stage effects are very well judged.

Anne Evans, down to sing Cassandra, was ill on Saturday and replaced by Kristine Ciesinski, who had taken the all-important role at Leeds and is clearly familiar with its daunting demands. The Aeneas, Jeffrey Lawton, started splendidly with the nearest thing heard during the evening to forward French timbre. He had a moment of cloudiness in the farewell to the boy Ascanius in Carthage and thereafter showed some signs of vocal difficulty. They did not prevent a stirring account of Aeneas's long and terribly taxing solo scene. Mr Lawton's phrasing was intelligent and musicianly and his words were clear—the new translation by Hugh Macdonald is a welcome acquisition.

The Dido of Della Jones showed that good singer's usual virtues of steadiness, incisiveness and, again, clear enunciation. The tone thinned dangerously in the arduous final scenes, but Miss Jones nevertheless managed some affecting cries of woe. A little more queenliness would help—this was less passionate, volatile, near-Eastern monarch than a gallant little woman in adversity. Dido's sister Anna (beautifully written role) and minister Narbal were safe with Penelope Walker and Sean Rea (a pity he looked so like a Reagan aide). Among so many well-taken small parts there is, alas, only room to mention two tenors, Peter Bronder as court poet and Timothy German as homesick sailor.

Kathie and the Hippopotamus

Martin Hoyle

A winner of the 1986 Edinburgh Fringe First, this play by the Peruvian writer Mario Vargas Llosa was praised by Michael Coveney on its home ground at the Traverse Theatre last summer. It arrives in Islington as part of the Traverse connection that has already brought other successes from the cobbled Grassmarket to the flaking gentility of Almeida Street.

A middle-aged woman dictates a travel book. Her ghost-writer translates her prosaic observations into the lushest of purple prosody ("late afternoon" becomes "crimson twilight"). She is Kathie—a pseudonym: Peruvian names sound wrong for writers—and he is Santiago, also renamed by his fantasising employer. The past of each character, both real and imagined, wish-fulfilment and obtrusive memory, is enacted, hers interact with his. He transformed his wife into a drudge with his radical principles, then left her for a student. Kathie rejected an aspirant writer to marry the archetypal Latin male, a compulsive womaniser, playboy and surfer. Santiago's amour fou fizzled out; Kathie had priggishly unloving children.

The shade of Victor Hugo, monstrous emblem of sexual selfishness and inexhaustible creativity, hovers throughout. Kathie's literary suitor is called Victor; Santiago's nymphet mistress oddly shares Mme Hugo's Christian name; jealous references are made to Juliette Drouet (the historical writer's mistress).

The dovetailing technique is at its best when two contrasted moods are juxtaposed. Thus the student's ecstatically erotic rhapsody to her lover is intercut with Kathie's old boyfriend awkwardly bidding his successful rival farewell, announcing his intention of becoming a Trappist monk, and wondering whether a whip-round will raise the fare. What could become rambling remains tightly constructed through the use of one actor for Santiago and Kathie's jilted Victor, and one actress for Kathie and the student passion in Santiago's past. The circle is completed by the ghost-writer's wryly observant wife—Kate Duchene in one of her sceptically amused Plain Jane roles—and Kathie's manic macho husband, embodied with fine fatuous fire and some odd verbal emphases by Alan Barker.

Stephen Unwin directs on Bunny Christie's wittily allusive set: a few items of furniture fringed by palm trees and the odd tiny pyramid of the heroine's travels. Robert Swann's Santiago holds the evening together magnificently, whether complacent, humiliated, sanctimonious or deliriously passionate (men are really clobbered in this play). He keeps the emotional temperature high with little help from Janet Amsden's unvarying drone as Kathie: measured, muted and monotonous.

'Amen Corner' moves to West End

James Baldwin's hot-gospel show Amen Corner will move to the Lyric Theatre, Shaftesbury Avenue from March 12, following its season at the Tricycle Theatre. The all-black cast remains the same — Carmen Munroe, Al Matthews and Clarke Peters, with production by Anton Phillip.

Tallis Scholars/Wigmore Hall

Richard Fairman

The song "Westron wynde when wyll thow blow" captured the imagination of the 16th century. Taverner, Tye and Sheppard all wrote masses based on it, though the tune seems rather undistinguished now, if the snatch of the original which usefully preceded this concert was a true representation.

Of those three composers, it is Sheppard who has tended to received the least attention in early music's current renaissance. This programme, devised by Peter Philips, director of the Tallis Scholars, took a selection of pieces from each of the forms in which he wrote (Mass, Respond and Hymn) and proved beyond any argument that there is enough real invention in Sheppard's output to sustain an evening's concentration, even if he may not equal the stature of his contemporaries.

The Mass Western Wynde itself is a typical example of his work. While the popular tune is repeated in the top part, the other voices support it with polyphonic part-writing, whose rhythm and energy give this composer his own special sound.

The music asks for brilliance of attack, at least one degree beyond that of Sheppard's contemporaries, and the Tallis Scholars happily added that to their usual arsenal of positive qualities.

In a recent radio programme their recording of the Masses by Byrd was compared with all the others currently available. Anybody who heard it will have been left in no doubt that for sheer purity of tone there is at present no other ensemble that can match them: Not a wisp of breath of fuzziness disturbed their singing here and in the sympathetic acoustics of the Wigmore Hall the balance of voices sounded almost ideal. The shorter pieces they chose were just as interesting. Sacris solemnis, the largest of Sheppard's hymn settings, shows the composer working with an unusual richness of texture; and Peter Phillips was right to point us towards the "Amen" of Jesu salvator seculi, which strains memorably beyond the expected bounds of harmony to find its exultant conclusion. A composer who can write that is well worth our attention.

Obituary/Nora Kaye

Clement Crisp

The death occurred on Saturday at her home in Los Angeles of the great American dramatic ballerina Nora Kaye. Born in New York in 1920 she studied dancing in her native city, and joined American Ballet Theatre at its inception in 1939. Within three years she was to spring to fame when Antony Tudor chose her for the leading role in his ballet Pillar of Fire. As the frustrated heroine, Hagar, Kaye's interpretation revealed that America had a new and astonishingly powerful dance actress: her performance was remarkable both in its force and its subtlety and was to make Nora Kaye a stellar figure for American Ballet Theatre.

She subsequently appeared in many of the traditional leading roles of the repertory—notably as Giselle—and in 1948 gave yet another vivid emotional reading as Lizzie Borden in Agnes de Mille's Fall River Legend.

Between 1951 and 1954 Nora Kaye joined the New York City Ballet, appearing to memorable effect in Jerome Robbins' The Cage, Tudor's La Gloire, and as Caroline in the same choreographer's Lilac Garden. Returned to American Ballet Theatre, Nora Kaye danced in several new ballets, including two made for her by Sir Kenneth MacMillan, and others by Herbert Ross. She was to marry Ross (her first marriage to the violinist Isaac Stern was dissolved) and appeared in his choreographies when they initiated the Ballet of Two Worlds in 1960.

She retired from the stage in 1961 and continued to work with her husband as assistant on the films he directed thereafter. During the past decade she had served on the board of American Ballet Theatre.

A woman of great charm and humour, Nora Kaye was, in all her roles, an artist who sought and found truth of motivation and power of communication. Her interpretations were touched with greatness because of this.

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

February 27–March 5

Music

LONDON

The Bach Choir, Philharmonia Orchestra: Dvořák's Stabat Mater, conducted by David Willcocks, with Eiddwyn Harrhy, Catherine Wyn-Rogers, Arthur Davies and Gwynne Howell. Royal Festival Hall (Mon) (9283191)

Peter Donohoe, piano: Debussy, Stravinsky, Rachmaninov. Elizabeth Hall (Tue) (9283191)

Peter Serkin, piano: Bach, Wolpe, Takemitsu, Messiaen, Beethoven. Wigmore Hall (Mon) (9352141)

Philharmonia Orchestra, conductor Yevgeny Svetlanov, Itzhak Perlman, violin: Elgar Shostakovich. Royal Festival Hall (Tue)

London Symphony Orchestra, conductor Georg Solti, Murray Perahia, piano: Beethoven. Barbican Hall (Tue) (6388891)

NEW YORK

Boston Symphony (Carnegie Hall): Seiji Ozawa conducting Mstislav Rostropovich, cello. Boccherini, Strauss, Prokofiev (Wed); Vivaldi, Lutoslawski, Dvořák (Thur). The programmes are part of the 60th birthday celebration of Rostropovich, which includes the week's New York Philharmonic performances (see below). (2477800)

Philadelphia Orchestra (Carnegie Hall): Erich Leinsdorf conducting. Dvořák, Schumann, Babbitt, Strauss (Mon). (2477800)

Music at the Crossroads (Whitney Museum Branch): The third annual American Sampler this week features vocal mountain music by Southern Shape Note Singers and choral music by the Gregg Smith Singers (Tue, 6pm). Sculpture Court, Philip Morris Building, 42nd & Park.

New York Philharmonic (Avery Fisher Hall): Leonard Slatkin conducting, Philip Meyers horn. Beethoven, Mahler, Gordon Jacob, Shostakovich (Tue); Leonard Slatkin conducting Shura Cherkassky piano. Berlioz, Rubinstein, John Adams (Thur). Lincoln Center (8742424)

WASHINGTON

National Symphony (Concert Hall): Christopher Hogwood conducting, William Steck violin. All-Mozart programme (Tue); Christopher Hogwood conducting. Haydn, Villa-Lobos, Stravinsky (Thur). Kennedy Center (2543776)

CHICAGO

Chicago Piano Quartet (Orchestra Hall): Gregory Smith, clarinet. Dvořák, Messiaen (Wed, 5.45). (4358111)

PARIS

Chamber Music: Koechlin, Milhaud, Adrienne Clostre, Gilbert Amy, Alain Bancquart (6.30pm), Andrew Marriner, clarinet, Tigran Alikhanov, piano, Moscow quartet: Stravinsky, Schnittke, Garcin (8.30pm). Both concerts Tuesday, Maison de Radio France, free entry (45241516)

Ensemble Orchestral de Paris conducted by Michel Corboz, with Ensemble Vocal Michel Piquemal (Tue) Salle Pleyel (45610630)

Bel Canto Concert with strings: Boccherini, Paganini, Sarasate, Wieniawski (Thur) Opéra Comique - Salle Favart (42960611)

SPAIN

Madrid: Orquesta Sinfónica y Coro de RTVE conducted by Gunter Neuhold: Brahms, Mozart. Soloist André Watts. Teatro Real, Plaza Isabel II. (Thu)

BRUSSELS

Ruggiero Ricci, violin and Kyoko Hashimoto piano: Beethoven, Stravinsky, Liszt, Paganini. Palais des Beaux Arts (Wed) (5125045)

ITALY

Turin: Teatro Regio (Sunday Morning concerts – 10.45 a.m.) the pianist Paolo Restani playing Brahms' variations on a theme by Handel and variations on a theme by Paganini. (54.80.00)

Rome: Teatro Ghione: (Via delle Fornaci 37): Luca Signorini, cello, and Elena Matteucci (piano): Schumann, Debussy, Hindemith and Brahms (Sun) (6372294).

Rome: Teatro Olimpico (Piazza Gentile da Fabriano): Octet from the Berlin Philharmonic: Hindemith, Schubert (Wed) (39.33.04)

Rome: Oratorio del Gonfalone: (Via del Gonfalone 32/A: An English Group, the Brodsky String Quartet, playing Mozart's Quartet in D Minor, Schubert's Quartet in A Minor and Beethoven's Harp Quartet, in E Flat Major. (Thur) (65.75.952)

NETHERLANDS

Amsterdam, Concertgebouw: The Netherlands Philharmonic Chamber Ensemble led by Istvan Parkanyi, violin, with Nobuko Imai, viola: Haydn, Barber, Beeewics, Mozart (Mon) and with Peter Frankl, piano (Tue). The Netherlands Philharmonic conducted by Ken-Ichiro Kobayashi, with Abdel-Rahman El-Bacha, piano, and the Amsterdam Toonkunst Choir under Jan Eelkema: Saint-Saens, Ravel (Thur) (718345).

Rotterdam, Doelen: The Rotterdam and Hague chamber choirs and the Randstad Orchestra conducted by Gerard Akkerhuis, with Young-Hee Kim, soprano and Sylvia Schlüter, contralto: Poulenc, Duruflé (Tue). Roelof van Driesten conducting the Rotterdam Philharmonic, with Kees Hülsmann, violin, and Aric Keijzer, organ: Keuris, Beethoven, Saint-Saens (Thurs). Recital Hall: The Artis Quartet: Schubert (Wed) (4142911)

Utrecht, Vredenburg: The Netherlands Philharmonic conducted by Ken-Ichiro Kobayashi, with Abdel-Rahman El-Bacha, piano, and the Amsterdam Toonkunst Choir under Jan Eelkema: Saint-Saens, Ravel (Tue). Recital Hall: Raphael Quartet: Haydn, Keuris, Schubert (Tue). Geoffrey Madge, piano: Liszt, Busoni (Wed) (314544).

The Hague, Congresgebouw: The Hague Philharmonic, conducted by Othmar Maga, with Joshua Bell, violin, and Ruud van der Meer, baritone. Bach, Mozart, Mahler, Pfitzner (Thur) (548000).

La Fille mal Gardée

Clement Crisp

We were at the Opera House Bintley's debut as Widow Simone with the main Royal Ballet troupe. It is a role which he claimed from his very first performance with the Sadler's Wells branch of the company, and its liveliness and eccentric humours are no whit diminished at Covent Garden.

Like Stanley Holden, great originator of Simone, Mr Bintley roots his interpretation in the best music hall traditions of travesty playing: he bundles about the stage, mouth like a rat-trap, bossing dear Lise and succumbing to occasional moments of roguishness. There is a passing resemblance to Norman Evans or Les Dawson in dame-ish mood, and the same earthiness and strength to the reading: there is, mercifully, not the least hint of a drag impersonation.

A Yorkshireman, Mr Bintley naturally revels in the challenge of the clog-dance — done with spanking clarity and speed on Thursday—and he brightens the action at every moment. He has a worthy Lise in Fiona Chadwick, ebullient in technique with her easy jump, and no less alert to the dramatic potential of their joint scenes. I like the way she pokes her tongue out in frustration at the ancestral silhouettes when she is confined to the farm house, and her mock-exhaustion after a few sweeps of her broom to clear the debris where Colas has hidden under the corn stooks.

role is happily hers in step as in feeling, but I am less sure about Jay Jolley's Colas. Decent in manner if rather sketchy in meeting the challenges of the corn-feld duet he and Miss Chadwick produced a soaring account of the final duet, catching all its tender exultation.

From Simon Rice an individual, touching and very limber portrait of Alain. The dances have a muscular spring to them, the characterisation is clear: this Alain is on his best behaviour, trying desperately and not too inadequately to do the right thing, and catching at our hearts thereby. It is very different from the part created by Alexander Grant, but vivid, and done with the customary excellence of this young artist. And, as ever, Leslie Edwards was Thomas. And perfect.

Janet Smith and Dancers at the Shaw

Janet Smith and Dancers are appearing at London's Shaw Theatre from tomorrow until Saturday 7 with three London premières in their programme and Robert North performing with the company for the first time.

The new works are Janet Smith's Still No Word From Anton, a spoof on American radio soap operas of the 1930s to 1950s, and Out Into the Night, inspired by Shostakovich's Piano Trio No 2. The third work is Robert North's Fool's Day,

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Telephone: 01-248 8000

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Mr Funaro and the creditors

THE FULL significance of Brazil's decision to suspend interest payments on its commercial bank debt remains hard to judge. Mr Dilson Funaro, Brazil's finance minister, has assured bankers that the move was "defensive" rather than "confrontational"; however, his decision to embark on a series of bilateral talks with governments is calculated to unsettle the private creditors. Mr James Baker, the US Treasury Secretary, and Mr Paul Volcker, the chairman of the US Fed, so far have taken the line that Brazil's decision is tactical and need not entail a fundamental reappraisal of techniques for managing third world debt.

The US Treasury appears to believe that the strategy for coping with debt outlined by Mr Baker at Seoul in autumn 1985 remains valid. The essence of the "Baker plan" was that a long-run solution to the debt problem could be sought only through policies designed to boost growth rates in the developing world. The debtor countries were urged to implement structural reforms in order to improve the efficiency of their economies while commercial bank creditors were called on to provide the capital resources needed to make adjustment feasible. At the same time, it was recognised that escape from the debt trap would be made much easier if industrial countries could manage to reduce real interest rates and speed up economic growth.

US borrowing

Few economists would quibble with any of these recommendations, although some have argued from the outset that such measures would not obviate the need for painful debt write-downs at the large US banks. The trouble is that it has proved extremely difficult to translate the theory of the Baker plan into practice. Some blame attaches to the developing countries: domestic political constraints have stood in the way of rational economic policies throughout Latin America and most obviously in Brazil. Even more blame, however, must be accepted by governments and banks in creditor countries.

Instead of providing more capital resources, the commercial banks have provided less: since 1982, the share of bank lending to developing countries in total international lending has fallen from 27 per cent to 1 per cent. Recent World Bank figures confirm that the most heavily indebted countries have repaid more in principal and interest than they have received in new loans every year since 1983; by the end of 1986, net transfers had reached a total of $82bn. Meanwhile, heavy US borrowing has helped keep real interest rates at crippling levels.

Commercial banks' progressive withdrawal from Third World markets, however, is easily the most worrying trend. It is resulting in a vicious circle: fewer new loans lead to slower growth which in turn leads to deteriorating debt service ratios and yet more restrictions on borrowing. At the same time, as commercial banks' exposure to the debtors steadily declines, their incentive to care about what happens in these beleaguered countries diminishes.

Higher growth

Most debtors, as the World Bank points out, have behaved responsibly in the face of high real interest rates and a forced transfer of capital to the developed world: they have continued to cut imports and have allowed per capita incomes to fall sharply. Brazil has been an exception: last year it sought and achieved higher growth and it bought more imports.

It is tempting to argue that governments should not seek to influence the banks' commercial judgments. The reality, however, is that they have no choice: official institutions at present lack the capital to play more than a catalytic role in resource transfers. Moreover, the individual interests of particular banks are quite at variance with the collective interests of the global financial system. In the long-run a reversal of capital flows in favour of the poorer countries is in everybody's interest. It needs to be achieved through patient negotiation and a recognition on both sides that conciliation is infinitely preferable to confrontation.

Time to back Mr Gorbachev

MR MIKHAIL Gorbachev's offer to negotiate a freestanding agreement on the elimination of all Euro-missiles is a remarkable volte-face from the most recent and the most categoric Soviet position. On grounds of military and Alliance strategy, the offer will be received with mixed feelings by some European governments. On balance, however, they must all welcome it as an indication of the Soviet leader's determination to keep up the pressure for progress in nuclear arms control.

After the summit at Reykjavik, the Soviet Union declared that the three parts of the Geneva arms control negotiations—strategic weapons, strategic defences or space-based weapons, and Euro-missiles—would stand or fall together; there would be no agreement on any of them unless there was agreement on all. It was a logical position, and it was buttressed by the original agreement relaunching the Geneva talks in January 1985, which explicitly acknowledged the interconnections between the three issues.

Logical links

Without an agreement on strategic defences, it would be senseless to negotiate limits on offensive systems, since the size and nature of one side's *offensive weapons must be a function* of the size and nature of the defensive systems on the other side; and it would require a very peculiar *military* logic to agree to the elimination of one class of nuclear weapons (Euro-missiles) without knowing at all whether there would be an agreement to make deep cuts in the rest of the nuclear arsenal, or whether, on the contrary, there would be a new arms race.

On the other hand, it is clear that the logical links are tightest between strategic defences and strategic defensive systems: they cannot be broken. The logical connection between them and the Euro-missile issue is not as strong, and the 1985 Geneva summit meeting between Reagan and Gorbachev concluded with an explicit hint that a separate "interim" Euro-missile agreement was indeed a possibility.

It probably makes no sense for either side to pretend that it is possible *permanently* to sever the link between Euro-missiles and the other two issues; hence, no doubt, the use of the word "interim" at the Geneva summit. But politically it may make sense for Mr Gorbachev to trade on the fact that *the strategic balance is remarkably* stable, and cannot be quickly upset, however fervently President Reagan may believe in Star Wars. He may, therefore, be relying on this stability, and on the elasticity of the connection, to propose an independent Euro-missile deal.

The deal to which he has now given the green light has in fact already been virtually concluded, at least in broad principle: the US would remove all its cruise and Pershing II missiles from Europe, and the Soviet Union would do the same for all its SS20s. The superpowers would still be allowed to keep 100 Euro-missile warheads, but outside Europe.

A major remaining difficulty is that of verification: How can the US be sure that the Soviet Union has destroyed its Euro-missiles, not simply hidden them away? This is a particularly difficult problem with mobile weapons like the SS20s and the cruise missiles, and may require intrusive verification methods which would test Mr Gorbachev's policy of openness to the limit.

European anxiety

The political anxieties of some European governments are just as acute. For them, the significance of the Euro-missiles is more political than military, and they fear that the removal of these systems will further weaken America's commitment to the nuclear protection of Europe. This anxiety was made more acute by Reykjavik, and the impression that President Reagan was prepared to sign away Europe's security without consultation.

It must be premature to assume that a free-standing Euro-missile deal is in the bag. The fine print will remain tricky, verification is inherently very difficult, and we cannot be sure that the new Soviet offer is not motivated by political arrière-pensées designed as much to put pressure on President Reagan as to reach a limited agreement. Nevertheless, Europe must give support to arms control wherever it contributes to security; it may also need to take the prospect of a Euro-missile agreement to rethink specifically European aspects of Europe's security.

Australian and New Zealand investments

Up from down under

By Terry Povey

SCARCELY a week goes by in London without some announcement from a relatively unknown Australian or New Zealand entrepreneur causing a stir.

Although many of the deals have been small, this second wave of investors—flowing in the tracks of veteran operators like Rupert Murdoch, Alan Bond, John Elliott and Robert Holmes à Court—has begun to take on the appearance of a settled force rather than a hit-and-run squad. A dozen or more high flying dealmakers from Australia and New Zealand have now set up permanent offices in London, joining the larger Antipodean banks, insurance companies and broking firms.

Unlike the first generation of raiders, who operated out of Australia but were mainly foreign born, the new generation are natives of Australia and New Zealand. But some of them, especially the New Zealanders, have been so eager to make conquests in Europe that they have scarcely paused to establish themselves in Australia.

"They see Australia as a worked out old gold mine, with reserves (read: undervalued assets) close to exhaustion," says one analyst.

While clearly identifiable core activities exist in the businesses of the first wave (Murdoch—media; Elliott—brewing), the second generation consists mainly of investment-holding companies lacking strong attachment to industrial or services sectors but heavily dependent on "turns" taken in stock market dealings. As they gain control of venerable companies like Gestetner, now owned by AFP of Australia, it remains to be seen whether they will engage themselves seriously in the management of their new assets.

In the van of the invaders are Ron Brierley (Brierley Investments (BIL), Industrial Equity and Industrial Equity Pacific), Craig Heatley (RainbowCorp), Pat Goodman (Goodman Fielder Wattie), Russell Goward (Westmex), Bruce Judge (Ariadne and Impala), Colin Reynolds (Chase), Basil Sellers (AFP) and John Spalvins (*Adelaide Steamship*). At home these enormously self-confident men are treated like stars, lionised by shareholders hoping that some of the money-making magic will rub off on them.

Official figures show that Australian non-official direct and portfolio investment abroad has increased dramatically—from A$517m (£225m) 10 years ago to A$7.7bn in 1984-85. The current figure is without doubt higher still.

Although they vary in size and style—some are arrivistes, while others run sizeable groups—there are common reasons behind their European adventures.

Partly it is a question of dissatisfaction with the economic and investment climate at home. New Zealand and Australia have some of the highest interest rates in the developed world. During 1986, Australian prime rates ranged between 16.75 and 20.5 per cent while New Zealand's call rates have been between 12 and 26 per cent.

The two countries' currencies have also been weak because of balance of payments problems. Crucial raw materials export earnings are still suffering from stagnant commodities prices.

Stock market conditions have also stimulated overseas ambitions. The Australian All Ordinaries Index rose almost 50 per cent last year while New Zealand's Barclay Index doubled from 1,900 to 3,800—although it has fallen 16 per cent this year so far with the entrepreneurial stocks among the worst hit (BIL is down 30 per cent).

These rises made fund-raising easy, but also accentuated fears that the long bull run could soon come to an end. Mr Brierley, who recently became deputy governor of New Zealand's central bank, is not alone in questioning the "undermining of fundamental values" he sees as implicit in such rapidly rising markets.

If pessimism about interest and exchange rates and a desire to win a place in markets with much greater depth are the underlying motives for going overseas, then deregulation has provided the *opportunity*. The ruling Labor/Labour parties have floated their currencies and eased or abandoned most controls on the flow of funds and capital.

It is on the back of these decisions that Antipodean banks like Westpac and ANZ have expanded rapidly overseas. They, along with aggressive US banks, are happy to provide the entrepreneurs with credit lines. Even the smaller companies appear able to obtain substantial sums, frequently secured against the value of the shares in the target company, a risky but profitable relationship so long as the UK stock market continues to rise.

Shareholders enthusiasm for the raiders has permitted frequent share issues although indigestion is now a problem for the New Zealand market. Most of the US 7th Corps in Germany have high debt levels—a matching of borrowings and assets is considered "normal." Brierley Investments almost tripled the number of its shares traded over the year to June 1986. But in spite of this the shares ended the financial year NZ$1.05 ahead of the mid-1985 level.

For many of the invaders Mr Brierley's trans-Tasman empire (BIL his master company is New Zealand's largest capitalised at NZ$4.4bn (£1.6bn) and its major subsidiary IEL is Australia's fourth largest, capitalised at A$3bn) is the model. Several of the less well-known raiders are former Brierley lieutenants.

His style is quickfire stake-taking and bid making; in essence, the Brierley group is an old fashioned hunter-out for undervalued assets. Mr Brierley's cautious nature keeps him away from the more spectacular bids. "I'll never put all my eggs, or even most of them in one basket," he says.

Today, the Brierley group sees itself as "part of the NZ establishment, with companies coming to us for help against the raiders," according to Mr Paul Collins, BIL's 33-year-old chief executive.

In contrast, Rainbow Corporation only went public in May, 1984, but is already New Zealand's tenth largest company (market capitalisation NZ$496m). Its main claim to fame until recently was that it owned Rainbow's End, the country's largest amusement park.

Run by Mr Craig Heatley, former mini-golf course operator, and Mr Garry Lane, previously a top accountant, Rainbow's *last two annual reports* reflect the speed of change. That for the year to July, 1985 features photographs of dodgem cars, giant swings and smiling children as befits what one banker describes as the "world's first publicly traded roller coaster."

The 1986 report, however, is almost funereal—Rainbow has become an "international investment group" and the directors report speaks first of profits growth rather than the installation of a log flume ride.

Soon Rainbow may disappear altogether, becoming Astral Pacific after a merger with a supermarket chain.

Adsteam, a food-based group with 450 subsidiaries and associates, has been run by Mr Spalvins since 1981 and is Australia's 24th largest company with a market worth of A$1.4bn. Adsteam's reputed A$700m war chest could well mean that its relatively slow start overseas will soon pick up speed.

Another New Zealand arrival is Chase Corporation run by Colin Reynolds. Chase sprang into action in late 1984, determined to expand "more rapidly than in our wildest dreams" on the back of deregulation. In the short meantime the group has risen from 82nd in the New Zealand market to third (market worth, NZ$1.4bn) and has NZ$500m in funds immediately available to it.

Much of the invaders' activity, however, is indistinguishable from stock market arbitrage — buying and selling stocks for a quick return. Even in overseas markets their battles are often against each other. So far the only classical bid in the UK — Brierley's £258m offer for Ocean Transport and Trading — has failed. However, the *injection* of funds through vendor placings or subscriptions have proved successful routes to winning control of a *listed* vehicle.

Gaining power by such means, the Antipodean entrepreneur avoids having to deal with the City head on and therefore does not come very closely under the analyst's microscope. However, when and if subsequent *expansion plans* make this necessary it could prove problematic.

Mr Brierley lost his OT&T bid because M&G, the UK largest unit trust fund, bought shares and rallied support for the board. "Their motives should be questioned—we like to back managements we know and are not sure just what real business experience these Antipodeans have," says a top manager at a leading pension fund.

"The institutions see the *Antipodeans as a ginger group*, one of which has been on the rampage during 1986," says the head of equity research at another institution. "Yet even the largest of them act like pure raiders rather than builders of serious businesses. When they hold a stake in a company, the management has to step up its performance—a good thing in itself from which we all benefit—but this doesn't convince us that we should support their takeover plans."

On the other hand Mr John Evans, UK equities chief at fund managers Ivory & Sime, cautions against dismissing these entrepreneurs out of hand because they have grown so fast. "They can be compared with fast-growing UK mini-conglomerates such as F. H. Tomkins and Evered Holdings, which have grown much more quickly than the like of Hanson Trust or BTR," he says.

There is certainly some justice to the unease felt about the Antipodean's business experience. Astute market players with (usually) short histories they may be but, apart from the ginger group role, what have they to offer? Back home the head office is usually a small team of analysts (mainly accountants) busily researching opportunities — the operating managements in businesses controlled by these groups typically work to centrally set financial targets but are otherwise left to themselves. Few companies are owned outright and the corporate structure is a maze of cross-holding with often several publicly-quoted arms.

In the recent major corporate battles in Australia, the new wave of entrepreneurs has apparently been content to take profits on their holdings rather than sing it out. As long as this is the dominant trend they appear condemned to remain second in more than just age and experience terms.

The speed with which these groups have grown and the amount of debt involved must hitch entrepreneurial success firmly to the rising market bandwagon. With home markets either falling or stodgy, it could get harder for the raiders to raise fresh equity; some of the newcomers' fortunes could quickly go into reverse. Fickle *shareholders could decide* to move on to the next rising star. that the majority of the raiders

However, trouble seems far off to the "lucky country" entrepreneurs. In London, many rumours now have a "Bruce" in them, and all the signs are [illegible] — wish to settle. With thousands of hours flying time and even more *jetlag* behind them, the men from Australia and New Zealand believe they have come to stay.

RECENT DEALS

July 1985: Brierley wins control of Tozer Kemsley & Millbourn (£59m)
April 1986: TKM pays £57m for Kenning Motor
June: Westmex pays £10m for control of Charterhall
July: Unity Corp buys control of New Cavendish Estates for £7m.
August: Goodman Fielder Wattie pays £109m for 14.6pc of RHM.
August: Chase Corp pays £42m for control of Wingate Property
November: Chase-controlled Wingate offers £150m for Property Holdings and Investment.
August: Brierley unsuccessfully bids £260m for Ocean Transport & Trading (but retains 30 per cent stake)
September: Unity Corp spends £5m for 44 per cent of Ifico.
November: AFP pays £14m for control of Gestetner.
November/December: Adsteam pays £75m for Blue Circle stake.
January 1987: Bruce Judge wins control of Goode Durrant for £28m.
February: Goode Durrant takes stake in Perry Group.

Men and Matters

Sparing the General

General John Galvin, aged 57, the new Nato commander in Europe, has been described as the obvious choice by both diplomats and by military colleagues.

His qualifications as a senior US general naturally made him a front-runner to succeed Gen Bernard Roger. However, it has not been so clear-cut in Washington that he would get the job.

Galvin knows Nato and European defence thoroughly, having served nine of the past 15 years in the European theatre. The Reagan Administration's problem in proposing him for the job was, from the start, whether he was too valuable as head of Southcom, the US Southern Command, based in Panama, to be spared.

Southcom embraces management of the US presence in Panama, all military affairs in the southern hemisphere, and the conflict in Central America. Its command is perhaps the most sensitive field post the US services have to offer.

In the past Galvin has proved himself an astute diplomat as well as a cautious soldier. He took over Southcom three years ago and immediately began to exercise a more restraining hand upon US activities in central America.

Last year he was the most senior US official to meet the Chilean leader General Pinochet. Galvin used the occasion to remind Mm discreetly of US concern over human rights. An even more delicate recent mission was to Buenos Aires just before Britain introduced (last month) its new 150-mile Falklands islands fishing conservation zone. He is believed to have helped establish the ground rules whereby Argentina and Britain avoid military conflict in those waters.

A donnish looking man, Galvin likes to see himself both as a man of action and of letters. He served in Vietnam. He also has a degree in English from Columbia university, and he speaks German.

Having served as commander of the US 7t hCorps in Germany on his last European tour he is credited with a good knowledge of the strengths and weaknesses of Nato.

Silence in court

Some London barristers have had enough. A public protest against rude judges has been made in the Law Society's Gazettte.

There are too many judges *who are not just impatient but* downright rude, says Sir Topaz, an anonymous barrister who contributes regularly to the magazine.

It often arises, he suggests, out of unnecessary pomposity. "There is still no known cure for that most contagious of diseases, judgitis, which seems to afflict certain people the moment their bottoms *hit* the bench. However, it is an anti-social disease, and there is no justifiable reason why members of the Bar or solicitors should be exposed to it."

The guilty men are known to the Bar, Sir Topaz warns darkly, adding, like the decent chap he is, that there is a feeling that complaining to the Lord Chancellor's department would be "the equivalent of sneaking at school."

He recommends, instead, a *united front of barristers and* solicitors to publicise the bad habits of persistent judicial offenders. "Browbeating counsel one or two at a time from the bench is one thing. With a united profession against them it might cause offending judges to behave more reasonably."

Makes me wonder who is in the dock.

"We've been sent by YTS to get some work experience"

Into battle

There has been speculation about the long-term future of Sir Michael Havers, the attorney-general, since he announced early last month he would be taking a break from work for health reasons.

Some at Westminster saw this as a prelude to his resignation, given the controversy over his alleged role in the Peter Wright-MI5 book case in Australia, and the Zircon affair, together with the strains on his health following major heart surgery in late 1985.

However, I gather he will be back at his desk in a week's time, following a short holiday, with health restored.

The timing is not accidental. The verdict in the Australian case is expected in the following week. Havers has made no secret of his desire to give his view of what happened in a Commons statement.

The only snag about that timetable is that the verdict in the Australian court *may* go against the British Government—which would then *presumably appeal*.

That would naturally limit what Havers could say. And the appeal might not be heard until after the general election, when he is retiring as a Member of Parliament.

Feminine touch

Hard-driving businesswoman Jane Stephenson, aged 33, who is also a spinster of her parish (a point germane to the story) decided to publicise her Holborn, London, design consultancy in a cheap but effective way.

Earlier this month she sent out 150 handwritten but unsigned Valentine cards to the leaders of selected banks, and commercial and industrial companies.

A week *later* she sent them letters *explaining* that if she had succeeded in attracting their attention they might kindly reciprocate by using her business services.

Since then she has had a flood of letters which have generated some business but have, more clearly, exposed a number of shattered male egos.

Typical was the tycoon who wrote that the *follow-up letter* to the Valentine had "resulted in a severe blow to my ego and the onset of depression."

Another man, a banker, admitted that her Valentine had had him "oscillating between fascination and fear" as he had kept the secret from his wife.

A shattered surveyor admitted candidly to "disappointment" when the sender of his Valentine revealed herself to be simply after an order.

I should mention that their initial hopes were not without *foundation*. *Jane Stephenson* was, in her day, Miss Fresher of Trinity College, Dublin.

Observer

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FOREIGN AFFAIRS

Mr Reagan's dangerous dream

By Ian Davidson

TO JUDGE by newspaper headlines in recent weeks, the most important question facing Washington has been: How deeply was President Reagan implicated in the arms-for-hostages scandal? This is understandable because Ronald Reagan's populist career has been founded on his image as a decent, regular guy. If he was two-faced over the policy towards terrorism and mendacious after the exposure, it does not look good for the image.

If this is the most important question facing Washington, then it has been answered, with remarkable severity and without appeal, by the Tower Commission: President Reagan was in it up to his neck, if not up to his head, from the beginning. Right-wing activists from the armed services in the White House may have enjoyed far too long a leash to conduct cloak-and-dagger transactions in a world they knew nothing about, but at least they kept the chief executive informed.

At a distance from the hot-house of Washington and the moralising of American politics, however, it is not clear that the newspaper headlines are giving us the right answer, or even the right question. The American electorate may want to go on believing in the personal virtues of the most popular President in living memory. But from a European perspective, it must be a finely balanced judgment to decide which would be worse: a President who, in effect, authorised these incredible charades, with cakes and bibles and forged passports, or a President who knew nothing about them.

It is, of course, deeply alarming to suppose that the President could have so little understood the reasons for his own Administration's policy of not negotiating with hostage-takers, that he succumbed to the all-too-human temptation of trying to pull off a spectacular life-saving coup. But it would be even more alarming to suppose that any old colonel in the basement could defy administration policy without any authority from the boss.

Yet the trouble with such a judgment is that it is based on a backward-looking perspective, which remains too much influenced by American concerns for the politico-moral implications of Mr Reagan's involvement in the hostage negotiations.

The real question concerning America's European allies is not whether President Reagan has forfeited his claim to a posthumous Good Conduct medal, but what he will do now. Will he be so smothered by the aftermath of Irangate, with wave upon succeeding wave of investigations, inquiries and prosecutions, that he sinks back into apathy and indifference? Or will he seek to revive his authority and his reputation with a final, heroic effort to restore prominence and glamour to some other policy worthy of the Reaganite vision, so as to make America forget the ignominy of forgetfulness and senility?

Needless to say, neither scenario is at all attractive. But the second is even less alluring than the first, for two reasons: the obvious alternative policy with dream-appeal, the natural steed to carry the old trouper off towards the sunset, is Star Wars; and that, alas, is the steed that he seems to be preparing, or is being urged, to mount.

Everyone knew in advance of last week that all attention would be focused on the publication of the Tower Commission's report. It cannot have been a coincidence that last week was also chosen to send emissaries from Washington to soften up friends and allies in preparation for an emerging administration decision to conduct tests under the Star Wars programme which will break the 1972 anti-ballistic missile (ABM) treaty.

Naturally, this is not how the situation is being presented by Paul Nitze and Richard Perle as they travel round Europe. On the one hand, they say, no decisions have been taken, so all questions of tests and deployments of anti-missile defences can remain in delightfully soft focus. On the other hand, the Administration has "discovered," by consulting a lawyer (in the State Department) that it is legally entitled

to conduct virtually any tests or deployments it chooses, so that there is no question of breaking the ABM treaty.

In the meantime, the Administration is loyally consulting its allies on a subject of common interest. They have no right to express a view on the legality or otherwise of anti-missile tests, since they are not party to the ABM treaty, but since they are being consulted, they will have no right to complain, even in private, when decisions are finally taken in Washington.

Lawyers solemnly debate the case being mustered by the Administration in support of its new, elastic LCI ("legally correct interpretation") of the ABM treaty, but it seems a pretty footling exercise since the case is transparently silly. Essentially it rests on a potential loophole clause which might conceivably permit tests using, not launchers, interceptors and radars, but "other physical principles"; but since the space-based tests planned for next year are not of lasers or charged-particle beams or anything exotic, but of super-accurate non-explosive interceptors, they could not get through the loophole, however wide it is imagined to be.

In any case, this is manifestly not a legal issue in any ordinary meaning of the term, because there can be no independent court of appeal. The Administration is right to deny the European allies any standing on the issue, but in that case, why put forward a legal argument? The only people who do have standing are the Soviet signatories, but in that case, if the new US interpretation is so good, why forbid the American negotiators to discuss it with their Russian counterparts?

It is hard to put a constructive interpretation on the Administration's position. One test of an interception in space in 1988 will not prove anything of significance, except that it is possible, at great expense, to perform one spectacular trick on one occasion. It will certainly not prove the feasibility, let alone the desirability, of a space-based defensive system.

On the other hand, it may rule out, for an indefinite future, any prospect of arms control agreements on strategic nuclear weapons. The ABM treaty was the essential complement of the strategic arms limitation treaties (SALT) of the 1970s; neither side would agree restrictions on long range offensive forces, without corresponding (in fact, even stiffer) restrictions on anti-missile defences. Since that trade-off is logically unavoidable, it remains in force today: without agreed restrictions on strategic defences, there will be no agreed restrictions on strategic offensive weapons.

The logic of this link between strategic defences and strategic offensive weapons holds good despite Mr Gorbachev's new offer to negotiate a separate Euro-missile deal. But the political effect of the proposal will be to focus more attention on President Reagan's fixation with Star Wars.

At the moment the super-powers are uneasily poised between the SALT agreements, which have lapsed and/or are unratified, and the prospective deep cuts, which have not yet been agreed in Geneva. If the US goes ahead with a unilateral re-interpretation of the ABM treaty, it can almost certainly say goodbye to any new strategic arms control agreement.

This does not mean that a formal decision to conduct a forbidden test, nor even the test itself, would necessarily cause an immediate East-West crisis or a declaratory resumption of the arms race. No doubt there would be fierce denunciation from Moscow. But Mr Gorbachev's need for international tranquillity and predictability is too great for him to abandon it lightly because of the whim of President Reagan in his last year in office. Mr Caspar Weinberger, the US Defence Secretary, pretends that a space-based defence could be deployed six or seven years from now, but how can he possibly know? In any case that would be a decision for Mr Reagan's successor or his successor's successor. For the time being, Mr Gorbachev has good reason to sit tight and adopt a conciliatory posture—as he has just done.

Paradoxically, it is within the Atlantic Alliance that a US decision to break the ABM treaty would cause the most serious crisis. Whatever their rights in the matter, the European members of Nato unanimously endorse the most restrictive interpretation of the ABM treaty, because that is the only interpretation which can deliver strategic arms control. For the US to play fast and loose with the ABM treaty, will be taken as a brutal rejection of European views, and a cavalier disregard of European interests.

For the time being Mrs Thatcher's robust defence policy looks more plausible than Labour's unilateralism, but once President Reagan is perceived to be determined to reject a strategic arms control agreement for the sake of a Will-o'-the-wisj defence dream, her support for him is likely to become an electoral liability.

Of course, things may not get so far out of hand. Mr Nitze's consultations may persuade President Reagan to postpone any premature tests; in any case, Mr Gorbachev's volte face suggests that he is determined to turn a blind eye, in order to keep the Geneva talks moving forward. But in any event, the issue is more important than the absurdity of the arms-for-hostages scandal.

Lombard

Radio—a time for freedom

By Samuel Brittan

THE PUBLIC excitement over the selection of a new Director General for the BBC should not make us overlook the equally important publication by the Home Office of a Green Paper on the future of radio.

The good old slogan of "publish and be damn'd" has never been applied to broadcasting which has been subject to a thoroughgoing system of regulation—or censorship with a velvet glove. It is a system that has never been sufficiently questioned in a society supposedly devoted to free speech and freedom of artistic endeavour.

On those few occasions when regulation has been seriously defended the pretext has usually been "spectrum shortage." When there is only a small number of channels available, some system of official allocation is unavoidable. Moreover, a combination of a restricted number of channels and advertising finance produces a distorted market far removed from genuine consumer sovereignty. There is a bias towards the mass market and an undersupply of minority or even slightly demanding programmes for which viewers and listeners might be prepared to pay if they could put a coin in the slot—or its modern electronic equivalent.

In the case of radio, however, the Government now fully accepts that, whatever may have been true in the past, spectrum shortage is dwindling away. New international agreements, the exit of non-broadcasters from parts of the spectrum and other developments will lead to a great increase in the number of frequencies available from 1990 onwards.

The Green Paper speaks of the possibility of three commercial national radio channels—at present there is only Independent Local Radio. In addition there will be many opportunities for local radio including the very localised stations which go by the name of community radio.

The Green Paper accepts the Peacock Committee's conclusion that this new-found availability of channels means that detailed obligations imposed, for instance, by the Independent Broadcasting Authority on television contractors, are no longer suitable for radio. So long as the BBC provides tax-financed programmes of a public service kind there is no need for other radio stations to bear the full weight of the "obligation to inform, educate and entertain."

Complete freedom of broadcast content, subject only to the — quite stringent — requirements of the law of the land is of course too much for the Home Office to contemplate. But we should at least be grateful for the promised regulation with a lighter touch, both in terms of programme content and on technical matters, including whether to use IBA transmitters or not.

Of the three possible models of continued regulation by the IBA, a new radio authority and an extension of the role of a Cable Authority, the IBA variant is the worst. It has the wrong tradition and will face conflicts of loyalty. The best is probably the Cable Authority both because it already practises this lighter type of regulation and because it is used to wooing new operators rather than doing existing ones a favour by continuing their franchises as the IBA does.

But, for me, the acid test of Government intentions on radio is whether it takes up the Peacock suggestion (almost by accident not printed in bold type but far more important than its recommendations on Radios 1 and 2) that newly available radio frequencies should be put to competitive tender. So far from this being a philistine suggestion, the true philistines are those who do not understand the advantages of an automatic and impersonal system over the discretionary allocations of channels by the "Great and the Good."

The Green Paper rules out competitive tendering for "city areas" but leaves open the possibility for national services. This King Solomon's judgment is stated without explanation. But at least it leaves a small opening of which market liberals should make the most. The fact that frequencies are not allocated this way in other countries—not even the US—is a reason not for dropping but for persevering with the idea. For once Britain could risk being first with a new approach.

Letters to the Editor

Banks and the FSA

From Professor L. Gower

Sir,—I am amused that the clearing banks now argue that they should be afforded exceptional treatment in rules made under the Financial Services Act so that local bank managers may continue to perform their long-standing role of giving independent investment advice notwithstanding that the banks are no longer "independent" but sellers of their subsidiaries' investment products.

When, in the course of my "Review of investment protection," I had my first meeting with high-level representatives of the banks, they argued for total exclusion from any investment regulation because, so they assured me, local bank managers did not give investment advice and were not allowed to. I was then unable to conceal my incredulity and I must now confess that I find their present stance equally implausible.

(Professor) L. C. B. Gower,
Flat 3,
26 Willow Road, NW3

Legal liability for aircraft accidents

From Mr B. Wood.

Sir,—I was very interested to read the article by Peter Martin and John Balfour on February 19. The problem of the law governing injury and death in aircraft accidents is a real one. To the passenger present situation is complex and often irrational and unjust.

I, nevertheless, agree with the authors that the prospects for a new international agreement or for major improvements to the existing agreements are very poor. Even if there were some general consensus of opinion about what the international liability regime should be (which is highly unlikely) the timescale for its introduction would be an extremely long one.

Happily the framework for progress has already been created. The protocol to the Warsaw Convention known as Montreal Protocol No. 3 does (as the article says) have the effect of raising the limit of an airline's liability to about £85,000. The objection that this sum will remain unacceptably low in many countries is met by the opportunity that exists under the Warsaw Convention (as amended) for the concurrent introduction of supplementary levels of compensation. Thus in the US, where ratification of the Montreal Protocol No. 3 is being actively considered, it is certain that any such ratification would be conditional upon the acceptance of a supplemental compensation plan giving far higher limits (and possibly no limits at all) on compensation for death or personal injury.

The UK was one of the first countries to ratify this protocol and it would be greatly for the benefit of the travelling public if our example were to be followed and the protocol brought into effect. This might not be the ideal solution to the problem discussed in the article but it is almost certainly the only that is likely to be available in the forseeable future.

Bernard Wood.
19, New Bridge Street, EC4.

The merits of trade unions

From Mr I. MacLean

Sir,—In your report (February 23) about the TGWU campaign for part-time staff—which will be welcomed by every trade unionist—you quote Mr Ron Todd as saying that his union will not be adopting any "gimmicks and treating their members as customers."

This statement was apparently made in order to distinguish the T & G's approach from that of the growing list of trade unions (including my own) who see their function as being wider than the supply of industrial relations services to their members. Journalists have dubbed this development as "business unionism" but trade union officials see it as an extension of the very long tradition of providing selective benefits to their members.

The problem with Mr Todd's stand is that if union members are not seen by him as customers presumably he sees them as brothers and sisters in the glorious struggle for the socialist millennium. However desirable such a condition may be—as a view of trade unionists—it is, I suggest, bunkum.

In their early days as friendly societies trade unions spent 90 per cent of their time providing services (funeral benefits, unemployment pay, sickness pay, etc) to their members and 10 per cent of their time bargaining with employers. The point is that unions have always recognised that they have a wider role which touches on their members' lives outside of working hours. So far as I know nobody ever felt embarrassed about this.

For at least 20 years progressive unions have also understood that selective benefits are essential for the purpose of recruiting and retaining members.

Since the vast majority of people join organisations out of self-interest the job of unions is to persuade members and prospective members that it is in their interest to part with the membership subscription. Because of the nature of most collective agreements the negotiated improvements to terms and conditions of employment go to unionists and non-unionsts alike.

The question therefore arises as to why anyone should part with money for a benefit which they will receive anyway!

Logic would seem to suggest that there is little to commend this act of generosity. This is why unions have to work hard to provide worthwhile extra benefits which are exclusive to their members. That surely is what those trade unions which have recently revamped their membership benefits package have been doing.

Seeing trade unionists as customers who are in the market for a range of services like legal advice, individual representation, collective bargaining and an organised services (financial advice, discounted insurance, travel arrangements, etc.) unions are more effective in attracting and keeping their members all the better.

Iain MacLean,
12, Compton Road,
Lindfield, Sussex.

Trying to pay

From the Managing Director, Components & Linkages Group

Sir, — The new percentage break points in National Insurance contributions rates pose a very real problem for employers to effectively review salaries of some lower-paid employees. For example, if single, contracted-in employees, currently earning £2.50/39-hour week are given a 4 per cent increase to bring their pay up to £2.60/39-hour week, they will, after tax and NI deductions, receive just 1p an hour increase in their take-home pay at a cost to the employer of 13p per hour.

P. J. Price.
156, St Albans Rd,
Sandridge, St Albans, Herts.

Loading gauges and the Chunnel

From Mrs C. Beckett.

Sir, — I do hope that I am not too late to add my contribution to loading gauges and the Channel tunnel. Mr Southgate of British Rail (February 20) refers to rolling stock and carriages, but not to engines. All freight traffic in Britain will be hauled to the tunnel by diesel engines. These will have to be changed at Dollands Moor, which is an area of outstanding natural beauty close to the terminal site. French engines will then haul the freight through the tunnel and into Europe. Is this messy and slow procedure really the best for Britain?

I also view British Rail's cheerful assertion that Paris will be reached in 3½ hours by passenger train with utter disbelief. Last week, of the four trains I travelled on to and from London, one was on time, two were 15 minutes late, and one was 25 minutes late. This, you understand, is a 70 mile journey. It is also the same line that is destined to carry all the high speed passenger trains, and all the freight trains to the tunnel, as well as our own (very) ordinary service. There can only b eone word to describe this venture—chaotic.

(Mrs) Clare Beckett,
Forge House,
School Road,
Saltwood,
Hythe, Kent.

A council's debts

From Councillor R. Heseltine.

Sir,—The Labour leader of Islington Council (Feb 21) maintains with characteristic disingenuousness that it is "operating no differently from commercial organisations" in running up debts of £1bn—equivalent to around 28 per cent of the council's asset holdings (at her valuation). The fallacy of her analogy is that the annual interest bill for commercial organisations in the UK is covered in aggregate six times by trading profits, whereas Islington Council by design runs at a thumping great loss—rents, for example, paid by tenants amount to 18 per cent of total costs while the revenue to cost ratio for sports halls is 39 per cent.

The proper basis of comparison is, of course, with other local authorities, and in this context we find that Islington has the highest debt per head of all Labour authorities, which puts the borough firmly in the front line in the impending municipal debt crisis.

(Cllr) Richard Heseltine
29 Gibson Square, N1.

Play the markets

From Mr D. Johnston

Sir,—Mr Crum (February 25) will have to play the coffee market. When the FT signalled a rise in the commodity prices in late 1985 we bought up rather more than a year's stock of instant and filter. Stocks in the trade pipeline must be at least six months consumption, and my guess is that prices will fall first in the "own brands." I recommend Tesco's filter dark roast.

Denis Johnston.
35 Newlands Avenue,
Radlett, Herts.

FINANCIAL TIMES
Monday March 2 1987

Roderick Oram on Wall Street

Minority firms join elite

TOMBSTONE Advertisements, the traditional way brokers celebrate successful underwritings, usually look exactly alike. The same old names, rearranged in different pecking orders from issue to issue, make up the rolls of syndicate members.

The floatation of Consolidated Rail shares later this month raising up to $1.5bn for the US Government in its first large scale privatisation will be no exception – at least on top. Goldman Sachs, First Boston, Merrill Lynch, Morgan Stanley, Salomon Brothers and Shearson Lehman are all household names.

But what about Daniels & Bell, Doley, Siebert, AIBC, W. R. Lazard and Pryor Govan Counts which will be highlighted in special type in their own bracket below the list of the majors? How did they get in on the biggest initial public offering ever undertaken in US equity markets?

They are tiny investment dealers benefiting from a unique provision in the Conrail sales legislation calling for special treatment for firms owned by members of minority groups. Four are black-owned, one Hispanic and one female, all selected by the co-lead managers.

Many Wall Street firms which failed in their scramble for a piece of the Conrail action might be highly envious of the opportunity and rewards for "special bracket" firms. Even a small share of total fees estimated at $70m to $80m will be a handsome sum for special bracket firms some of which have capital of only $1m.

More important than the money, however, is the chance to break straight in at the top of equity underwriting, one of Wall Street's elite activities. They say they intend to perform well selling shares in Conrail, *a government-owned corporation established in the early 1970s* to rescue bankrupt railways in the northeastern US, so that senior syndicate members will involve them in further issues without prompting from congressional rules.

"We hope the deal will bring us recognition from the big houses for what we've already done," said Dr Jose-Antonio Alvarado, who founded AIBC Investment in Miami two years ago. Last year his firm participated in 10 offerings totalling about $400m.

AIBC is typical of a new breed of minority-owned investment dealers which have sprung up in recent years despite the inevitable difficulties and discrimination. Some 15 to 20 such firms operate in the US, a rise of 60 per cent to 70 per cent in the past two or three years, estimated Mr Travers Bell, chairman of Daniels & Bell.

In the same period, the National Association of Securities Professionals has grown to about 250 corporate and individual members, all of whom are from minority groups. The association energetically lobbied Congress for the special treatment.

When Daniels & Bell was established 17 years ago it was the first black member firm of the New York Stock Exchange. Last year it ranked 20th among municipal finance houses after participating in some $9bn of underwritings. Unusually for a minority firm, its main lines of business are equity block trading and research, particularly in energy companies.

Municipal finance has been the minority houses' best bet for building their businesses, more so in recent years as politicians from minority groups have won control of a growing number of towns and cities. Philadelphia, for example, began in 1984 that the big Wall Street firms involved small minority firms in the city's issues.

"We are pairing them with the bigger houses so they can earn capital and experiences," said Mr Eric Pookrum, the city treasurer. Pryor Govan Counts, a local firm, has worked up to running the books on a $30m city issue.

The special bracket firms believe they can help the Conrail syndicate through their contacts with minority groups. There are, for example, some 60 banks, 30 savings and loans and 15 insurance companies owned and run by minorities, estimated Mr Bell.

Some institutions, particularly insurance companies and pension funds could similarly be indentified closely with women, although Ms Muriel Siebert has always pursued a broader business strategy since buying an NYSE seat and establishing her own firm in the late 1960s.

"This is the first time in 19 years I've said 'I'm a woman, deal me in'," said Ms Siebert. Doing so has given her a chance to get involved in high level underwriting which continues to run on close working relationships.

The special bracket firms are discussing their share allocation with the syndicate managers.

Paris braces for terror attacks

BY PAUL BETTS IN PARIS

SECURITY in France has been reinforced following the unexpectedly severe verdict of life imprisonment for Mr Georges Ibrahim Abdallah, the alleged leader of the Lebanese Revolutionary Armed Faction.

Mr Abdallah was found guilty of complicity in the murders of a US and an Israeli diplomat in 1982 and in an unsuccessful attack on another US diplomat in 1984.

Checks at border posts and security at airports and railway stations in Paris have been increased. At airports, police and soldiers have been especially vigilent over parcels and freight for possible bombs. Controls have also been made at railways stations and in French high-speed trains which have been the target of bomb attacks hidden in luggage in the past.

In Paris, the authorities plan to maintain on duty the 1,000 additional security and police officers drafted to control shopping arcades, cinemas, and other popular places which are regarded as possible targets. The extra police had been drafted following the wave of terrorist bombings in Paris last autumn which also prompted the Government to tighten internal security and introduce compulsory visas for all visitors entering France with the exception of nationals from EEC and Switzerland. The Government recently decided to extend for a further six months the compulsory visa requirements.

Security officials also conducted checks yesterday on the security precautions at Paris' Charles de Gaulle airport. Prefects in regions near frontiers and areas regarded as particularly sensitive to eventual terrorist attacks have also been given "special instructions" on security in their regions, police sources said yesterday. The same sources confirmed that security had been increased on the French frontiers.

The maximum sentence delivered on Saturday caused a sensation since the seven judges ignored the plea of the prosecuting counsel the day before asking for only a maximum sentence of 10 years imprisonment against the alleged leader of the Arab terrorist movement.

Mr Pierre Baechin, the prosecutor, had caused a sensation by pleading for a light sentence for Mr Abdallah. He argued that he was doing so with "a heavy heart" but with the interests of France in mind. He suggested that a heavy sentence risked transforming the accused into a martyr and France into a hostage. He also implied a tough verdict could provoke fresh terrorist attacks in France.

But after one and a *half hours* of deliberation on Saturday morning, the judges announced to general surprise the maximum sentence. Mr Jacques Verges, the lawyer representing Mr Abdallah, declared that the decision of the special court was tantamount to "a declaration of war." He added that his client would not appeal the sentence.

Mr Abdallah refused to attend the trial after making impassionate political indictment of the court on the first day. Under the French legal system, Mr Abdallah will have to serve at least 15 years of his sentence before *his case for parole can* be reviewed. However, he could be pardoned by President François Mitterrand.

But the French President indicated last December on the question of pardoning another alleged terrorist *held in France* that he would use his powers only if he was formally asked by the Government and on the condition that all the French hostages held in Lebanon were released.

Although all the main French political parties with the exception of the Communists unanimously applauded the decision of the judges as a reflection of the independence of the country's legal system, the verdict is none the less expected to pose the conservative Government a headache.

The French press has widely reported that the government would have preferred a light sentence for Mr Abdallah to avoid the risk of further terrorist attacks and to help the Government's efforts to secure the release of the French hostages.

Robert Thomson in Peking looks at Mr Shultz's agenda for his visit to China

Sino-US ties face new test

MR GEORGE SHULTZ, the US Secretary of State, arrived in Peking yesterday for a visit that could complicate Sino-US relations if he criticises his hosts for selling arms to Iran.

US diplomats have indicated that the six-day visit is intended to consolidate relations between the two countries, but Mr Shultz's aides have said that he will push sensitive issues such as China's alleged arms sales to Iran and the recent expulsion of a US journalist for alleged spying.

At a welcoming banquet last night, Mr Shultz and Wu Xueqian, China's Foreign Minister, delivered generally positive speeches though Wu said that progress had been made in relations with *"twists and turns" and that both countries "should be soberly aware of the difficulties" afflicting the relationship.*

While Western intelligence reports suggest that China has sold arms to both Iraq and Iran, Chinese officials vehemently deny that weapons have been sold and will be affronted if challenged by the US, which hardly has a clean arms sales record itself.

In a recent interview with the Financial Times, a senior official of Norinco, the Chinese arms export agency, said the agency had sold only bicycles to Iran and even those exports were halted because Iran is short of foreign exchange.

Mr Shultz and his wife Helena admire the scenery near the Li River

The visit is likely to provide Washington with valuable information on the upheaval in the Chinese leadership, as Mr Shultz is expected to meet Deng Xiaoping, the Chinese leader, and Zhao Ziyang, the new Communist Party chief who is simultaneously serving as Premier.

Zhao replaced Hu Yaobang in mid-January after Hu was alleged to have made serious political errors.

Information leaked to foreign correspondents in recent days suggests that Hu made six major mistakes. He is alleged to have encouraged Western influence, allowed liberal ideas to flourish, pursued excessive economic growth, negated the rule of law, been undisciplined, and made "many" rash statements on foreign policy.

The US delegation will look for signs that Hu's departure has led to changes in Chinese foreign policy. Mr Shultz will be particularly keen to discuss developments in Sino-Soviet relations, including the recent round of border talks between the two countries.

Interestingly, Foreign Minister Wu was a close associate of Hu, and Eastern and Western diplomats say that his political future is in doubt. At last night's banquet, he emphasised that the "open door" policy would not be changed.

Mr Shultz said he will raise the case of Mr Lawrence Macdonald, a US journalist working for Agence France Presse who was expelled last month for alleged spying. It is understood that Washington considered but rejected a proposal to expel a Chinese journalist in retaliation.

Taiwan is certain to be discussed, *as China regards the island as an "obstacle"* in the path of better Sino-US relations. Mr Shultz will be urged to take a more active role in encouraging the Taiwanese to return to the Chinese fold.

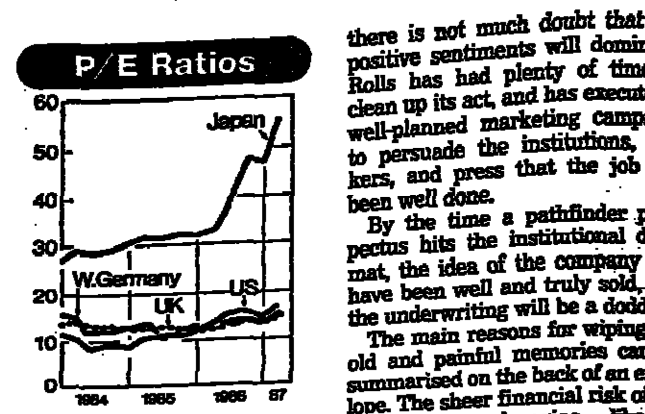
Meanwhile, China yesterday intensified pressure on the Japanese Government to intervene in a dispute over a student dormitory in Kyoto. A Japanese court has ruled that the dormitory belongs to Taiwan while Peking maintains that it owns the building.

People's Daily, the official Chinese newspaper, yesterday said the "political" case showed that some people in Japan are attempting to create "two Chinas." The Chinese Government is generally reluctant to criticise Japan in the local press, as it is known to fear that latent anti-Japanese feeling could be drawn to the surface.

THE LEX COLUMN

Forget the quality, feel the weight

The consistency with which international equity markets have been shattering received wisdom about the value of corporate earnings demands that the diagnosticians of the market-place come up with some new explanations. For markets are like hypochondriacs; even when they are well, they want to know what is wrong with them.



The weight of money argument is already accepted as the standard diagnosis of the feverish Japanese equity market. At least in Western eyes no canons of fundamental value can justify the multiples in Tokyo.

However, the purists at Wood Mackenzie cannot abide the same theory being applied with a generous wave of the hand to equity markets on either side of the Atlantic. They argue that the main point is not so much that everybody has more money to spend, but that there has been a shift in the pattern of savings towards equities.

The reasons given are the deregulation of financial markets, aggressive selling of mutual funds and low interest rates, which have reduced the lure of bank deposits and bonds.

In a sense the spectacular growth in the sales of unit trusts in the US, the UK and Japan is simply a realisation on the part of the private investors – once they have been saturated with the statistics – that over the long haul equities have dramatically outperformed fixed interest investments.

Yet WM also uses as a plank in its argument the wave of equity retirements in the US that resulted from the merger boom and stock buybacks. But here, surely, is a weight of money argument seen from the other side of the supply/demand nexus. What else is $60bn a year of equity retirement but a means of increasing the weight of money in proportion to the stocks which remain?

The investment advisers of the City of London should not be too snooty about using weight of money as the main key to unlocking the mysteries of the market. Anyone involved in the London property market is already deeply involved in this method of valuation – indeed has probably put his shirt on it.

After all, at the most vital level – the immediate setting of prices – equity markets are only about weight of money. The market maker does not do an incredulous calculation of the price earnings ratio of Glaxo or Wellcome after each large buy order. He just puts the price up. Afterwards there will be enough analysts to explain why the company is now fairly valued at the higher price, even though it was supposed cheaper a few months ago.

Yet the international weight of money theory may lead bulls into a euphoric and dangerous double counting. There is much excitement about the increasing tendency of institutions to invest outside their home market. It may cause dramatic surges in minor European markets in the short term. But in itself this process can only be a zero-sum game.

Rolls Royce

Rolls-Royce is a name which carries the most contradictory of investment overtones. There is the almost universal belief in Rolls as a symbol of engineering excellence, even if market research shows that the strength of that symbolism hangs more on motor cars than jet engines.

There is also a folk memory that Rolls is the company which broke itself on the development of a single engine; older Scottish fund managers are reported to be adamant against buying shares in a company that cratered their investment records, and Christmas bonuses, less than two decades ago.

If the flotation of Rolls stands to be greeted with mixed feelings, there is not much doubt that the positive sentiments will dominate. Rolls has had plenty of time to clean up its act, and has executed a well-planned marketing campaign to persuade the institutions, brokers, and press that the job has been well done.

By the time a pathfinder prospectus hits the institutional doormat, the idea of the company will have been well and truly sold, and the underwriting will be a doddle.

The main reasons for wiping out old and painful memories can be summarised on the back of an envelope. The sheer financial risk of developing a novel engine – like the fatal RB211 – will never again be solely undertaken by Rolls; major innovatory projects are nowadays done by international consortia.

When development work proceeds, much less of it consists in repeatedly destroying prototype engines; this kind of thing is done in the mind of a computer, which comes much less expensive. The consequence of these two changes is that Rolls is a much less chancy proposition than the company that emerged from receivership.

It has become possible, what is more, to think of Rolls as a company that is commercially managed, despite its time in government ownership.

Labour has been shed in enormous quantities, without reducing productive capacity. Technological effort has been put into reducing costs, as much as anything by persuading design theorists to draw things that production engineers can actually make: design is no longer required to be an expensive challenge.

The customers, which increasingly means the US airlines, regard Rolls with more respect than they did.

The company is on a rising profit trend, partly thanks to the favourable currency effect – only semi-hedged – of delivering engines that were ordered when the dollar was at its height two years ago.

If the earnings line is likely to be held back by a rising tax charge, it is nevertheless possible to see a comfortable two or three years ahead in the order book. A single-figure multiple should persuade all but the most embittered veteran to bury the hatchet.

British Labour Party leadership closes ranks

BY PETER RIDDELL, POLITICAL EDITOR, IN LONDON

THE LEADERSHIP of Britain's opposition Labour Party will close ranks and try to shrug off its by-election defeat in the London borough of Greenwich last Thursday despite rumblings of discontent on the party's left and right wings.

There will be the usual discussion of the conduct of the campaign, which ended with a spectacular victory for the SDP-Liberal Alliance over Labour's hard-left candidate, Mrs Deirdre Wood.

But even those party leaders unhappy with the hard left in London see no political point in re-opening a divisive internal debate before the general election, whose date has yet to be fixed.

Mr Bryan Gould, Labour's campaign co-ordinator, last night dismissed those calling for by-election candidates to be imposed by the party leadership rather than selected by local constituency Labour parties.

People making such calls were "either ignorant of the party constitution and the certainty of legal challenge if the rules are broken, or they are deliberately setting (Labour leader) Neil Kinnock a task which they know he cannot perform within the rules," Mr Gould said.

"In either case, they fail to give him credit for his demonstrated readiness to do all that the rules permit and to ensure that the Labour Party and its candidates campaign on the party's mainstream policies," Mr Gould said.

The party will now seek to describe the result as exceptional and highlight the forthcoming launches of detailed jobs and industry programmes.

Proposals for a statutory authority to regulate London's financial dealings will be announced later this week.

Labour is, however, vulnerable to public rocking of the boat by disillusioned MPs such as former parliamentary business manager Mr Michael Cocks, who warned in yesterday's Sunday Times that the Greenwich result was "a shattering blow to Labour's prospects of winning a general election."

Mrs Margaret Thatcher, the Prime Minister, and her advisers are taking a relaxed view of the Tory candidate's third place. Their current preference is to wait and see the opinion poll trends and probably also the result of local elections on May 7. An election in mid-to-late June has not yet been ruled out.

Gorbachev's nuclear proposals welcomed

Continued from Page 1

an agreement, as has been repeatedly emphasised, should be conditioned by a decision on preventing the deployment of weapons in outer space.

The whole issue of SDI development is currently the subject of intense debate in the US and its European allies. Influential members of the US Administration, such as Mr Caspar Weinberger, the Secretary of Defence, are in favour of a *"broad" definition of the 1972 anti-ballistic missile* (ABM) treaty which would allow not only research on space weapons but their testing in space.

However, others, like Sen Sam Nunn, the influential chairman of the Senate Armed Services Committee, and most of Washington's European allies support a "narrow" definition which would prohibit testing in space.

President Reagan has given an undertaking to his Nato allies that no decision on deployment of SDI will be taken by the US before it has been fully discussed with the Soviet Union and after thorough consultation with the allies.

Mr Gorbachev, for his part, has made a major issue of the question of the ABM treaty's interpretation and has warned that if the "broad" definition is adopted, it would seriously undermine any prospects of far-reaching arms control agreements.

Western diplomats in Moscow said the Soviet Union was likely to portray its new proposal on INF as a concession which, while not linked to other arms issues, nevertheless deserved a response from the US on SDI.

President Reagan, however, is likely to interpret Mr Gorbachev's gesture as a justification for his tough stand on arms control since Reykjavik and will probably be even less inclined than before to modify his intention to go ahead with SDI development and, eventually, deployment.

Bosporus bridge deal may go to UK group

Continued from Page 1

preferred for the third bridge, however, in the light of Turkey's eagerness to be admitted to the European Community.

If the new project goes ahead, it would be built by Cleveland Bridge & Engineering, the Trafalgar House subsidiary, in partnership with Enka, the Turkish construction group.

Finance would have to be provided privately by banks in conjunction with British Government export credits, to be repaid by tolls from the use of the bridge. Such an arrangement would be in line with that favoured by Mr Turgut Ozal, Prime Minister of Turkey.

Mr Dalan said yesterday that negotiations between the municipality and Trafalgar House would begin soon after the middle of the month. However, he added: "The whole business depends on how much support the British Government is prepared to give the project."

The proposed bridge would be built across an inlet of the Bosporus to link two parts of the city. The cost is likely to be between $500m and $600m.

Turkey is anxious to improve its credit terms with Britain's Export Credits Guarantee Department in order to promote more business with British companies.

A spokesman for Trafalgar House said yesterday that coming up with a financial package acceptable to the Turkish Government and the British Government, as well as being commercially viable for the private sector interests, looked like being "a very difficult act to pull together."

However, the British group pointed to its success in building a military township at Haman in Egypt

World Weather

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Readings at mid-day yesterday
C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

هكذا من الأجمل

FINANCIAL TIMES
SURVEY

Nigeria

Nigeria has embarked on one of Africa's most far-reaching economic reform programmes, winning the support of the International Monetary Fund and the World Bank, and paving the way for the rescheduling of the country's external debt, writes Michael Holman, Africa Editor.

A blueprint for economic recovery

A LITTLE over a year ago the Military Government of President Ibrahim Babangida appeared caught in a predicament. An agreement with the international monetary fund (IMF) was an essential precondition to the rescheduling of the country's total external debt of more than $20bn and the resumption of normal trading relations with Nigeria's main partners.

Yet public opinion, sounded out in the course of a national debate, was vehemently opposed to the fund. A debt crunch loomed, and the economic recession threatened to deepen, carrying with it a threat to political stability.

Some 15 months later the Government has ushered in a quiet economic revolution, upsetting much of the conventional wisdom about what the Nigerian public might tolerate. The country now has a blueprint for economic recovery which, provided it is followed through, and provided world oil prices hold up, could see the gradual reversal of dramatic decline.

Nigeria's structural adjustment programme, officially launched in mid-1986, and drawn up with the backing and advice of the IMF and the World Bank, stands out as one of the most radical of its kind in Africa.

Not a sector of the economy has been left untouched: all but a handful of price controls have been lifted; fertiliser and petroleum subsidies cut; rice and wheat imports banned in an effort to encourage production of locally grown staple foods; inefficient agricultural commodity boards have been abolished, their function to betaken over by private traders.

Furthermore, up to 100 state-owned companies are to be privatised or run on a commercial footing; and Government is committed to ceilings on domestic borrowing and budget deficits, agreed with the Fund.

At the heart of the programme was the Government's introduction last September of a two-tier exchange rate which not only led to an effective 66 per cent devaluation of the naira but ended, at a stroke, the old import licensing system, one of the most serious areas of corruption and the most frequently-used form of government patronage.

Under the new system, available hard currency is auctioned each week and an import licence is automatically issueded to successful bidders.

It is this programme, then, that has enabled the Government to win the endorsement of the IMF in a way which has satisfied both public opinion in Nigeria and the country's creditors.

The authorities met the terms attached to an SDR 650m loan from the Fund, thus satisfying the condition that an IMF agreement must precede debt rescheduling, but at the same time assuring Nigerians that theyhad no intention of actually using the loan.

The strategy paved the way to successful rescheduling talks towards the end of last year, first with the commercial bank creditors under the auspices of the London club, and then with the government creditors who form the Paris club.

The third—and the most complex and contentious—round of debt talks is due to begin this month: the rescheduling of uninsured trade arrears, the bulk of which are still subject to the tortuous and protracted process of reconciling creditors' claims against documents held by the Central Bank of Nigeria.

But in theory, at least, Nigeria is now in a position to complete the rescheduling process which, in turn, opens the way to the resumption of export credit facilities suspended since 1984, thus easing the foreign exchange crisis and helping the financing of the recovery programme.

However, when it comes to sustained implementation of the programme, the Government faces several challenges.

The first concern is the Government's capacity to follow through the reforms. The burden of economic policy-making rests on the shoulders of a comparatively small group of men and women. All too often important decisions are either delayed or inadequately explained — such as the failure in January to pay interest due on promissory notes issued to cover part of the uninsured trade debt — and Nigeria's credibility suffers as a result.

Within the programme itself, two related issues need urgently to be tackled. Government has promised to complete its review of the tariff structure, which currently has many anomalies. Until this is done, a clear framework for an industrial policy will not exist, which in turn damages Nigeria's prospects of attracting much-needed foreign investment.

The privatisation proposals, yet to be set out in detail may be hard to implement and politically sensitive. While it may not be difficult to sell off some of the attractive assets in which the Federal or state governments have interests, such as breweries and hotels, many of the ventures have been badly managed and are without adequate accounts. It may be a long time before they are ready to be put on the market. Government will also have to take account of the fears among northerners that the lion's share of the sales will go to southerners, traditionally more active in businesses and investment.

A further area of concern is agriculture. The Government's most important cushion against discontent has been the good harvests over the past two years, which have produced a surplus of food crops allowing the price of staples to hold steady or even fall.

The danger, however, is that farmers may be tempted to switch to other crops, lured by the impact of devaluation on export crops in particular. Unless the Government can successfully establish an attractive purchase price as the buyer of last resort and provide storage for a strategic food reserve, the sector could run into difficulties.

To this list should be added two further issues: the burden of the legacy of misconceived or badly implemented projects given the go-ahead in the era of the oil boom, and the impact of one of Africa's highest rates of population growth.

The merits of Abuja, the new federal capital still under construction, the Adjaokuta steel plant, and phase two of the petrochemicals plant, all remain debateable, and are potentially unproductive drains on scarce resources.

Meanwhile, the implications of the population growth rate over 3 per cent—represent one of the serious challenges faced by the country. At the present rate of increase, Nigeria's population will increase nearly three-fold by 2015, to more than 280m, placing an enormous strain on the country's resources.

The last concern is political stability. It is remarkable that the structural adjustment has been introduced not within an authoritarian environment usually associated with military regimes elsewhere in Africa, but amid open debate, conducted in the columns of Nigeria's lively newspapers and on radio and television.

Whether businessman, student, ex-politician or market trader, few seem constrained in offering their opinions on the merits of the reforms or the shortcomings of the government.

There is no doubt, however, that some interest groups have been antagonised. Those who had access to import licences under the old system have discovered that there is no longer easy money to be made.

Not only the middle class feel the pinch. The country as a whole is in a sombre mood. Austerity is taking its toll, leaving per capita real incomes at the end of last year 25 per cent down on 1974. Unemployment is high, industry operates at barely 30 per cent of capacity and foreign exchange constraints will remain acute for at least the next year.

The younger generation is profoundly sceptical about the future, uncomfortable with a Military Government but disillusioned by the corruption and squabbling that marked civilian rule between 1979 and 1983. The unsolved assassination—by a parcel bomb—in Lagos, last October, of Mr Dele Giwa, a prominent Nigerian journalist, also cast a pall which has not lifted, for it introduced a new and sinister note to Nigerian affairs.

The critical test of the adiminstration may be yet to come. President Babangida has said that the period of structural adjustment runs from mid-1986 to mid-1988, but few observers believe that timescale is adequate. Although the president has spoken of 1990 as the date for a return to civilian rule, it may well be that his government will need more time in which to see through the reforms to the point at which the military can hand over a revived, sounder Nigerian economy.

Picture by Ashley Ashwood

President Ibrahim Babangida: pursuing the path of economic reform.

CONTENTS

We have always accepted our domestic and foreign obligations says President Babangida in answer to questions put to him by Michael Holman

'No reason for creditors' anxiety'

WHEN President Ibrahim Babangida took power in a coup in August, 1985, he inherited an economic crisis marked by falling oil revenue, declining industrial output, a weak agricultural sector, trade arrears worth several billion dollars, and a stalemate in efforts to reschedule the country's crippling external debt.

In the months that followed, however, the Military Government started a process of economic reforms which won the endorsement of the International Monetary Fund (IMF), secured the support of the World Bank, and paved the way to debt rescheduling talks with creditors.

The President provided written answers to a series of questions on economic issues, put to him by Michael Holman, who began by asking what the President saw as the main challenge facing Nigeria in implementing Nigeria's structural adjustment programme.

ANSWER: The main challenge is the stability in the oil market to ensure that projected revenue and foreign exchange earnings will be adequate during the period.

The other side of the financial adequacy coin, is our ability to maintain discipline in financial disbursements and in adhering strictly to budget priorities. This becomes crucial, now that our revenue projections in the 1987 budget may prove much lower than what the oil market now indicates. The temptation to introduce new projects will be great, but we will ensure that budget discipline is maintained.

Q: Would you put a time-table to the economic recovery? Could you point to any benefits which have already accrued from the programme?

A: The period of Structural Adjustment Programme (SAP) is between July 1986 and June 1988. Quantitative targets have been set which can be measured during the period. As to the benefits which have already accrued, there has been increased utilisation of industrial capacity.

Before the commencement of SAP, the capacity utilisation was put at about 25 per cent. With the gradual arrival of raw materials imported under Second-tier Foreign Exchange Market (SFEM) many industries have started to improve on their capacity utilisation.

Farmers, especially those engaged in export crops, have started to receive higher prices for their produce.

In the case of cocoa, the producer price of N1,600 per ton which prevailed under the Commodity Board arrangement, has risen to about N4,500.00 in the last four months.

The Federal and State Governments have also had increased Naira revenues as a result of the exchange rate adjustment which is still being made through the Second-tier Foreign Exchange Market. In the 1987 Budget, for example, the Federal and State Governments have projected higher Naira revenues and have voted substantial sums for setting old debts owed to contractors, consultants, suppliers and so on. This is part of the strategy for reviving the construction industry.

Another area where positive results have been achieved is in export promotion. In the last quarter of 1986, about US$150m worth of non-oil export was registered with the Central Bank. Even when adjustment has been made for the fact that the period coincided with the cocoa season, the achievement is still considered significant.

Moreover, in response to the price stimulus, individuals and corporate entities are now engaged in reviving old farm plantations which were abandoned in the past.

Some of the measures contained in the programme have served to discipline the consumption pattern of Nigerians. People now buy things they really need and efforts are being made to repair old cars and equipment.

In a developing country, where capital is scarce, intensive use of capital assets is a most welcome and rational development.

Another important benefit which has accrued from the programme is the new method for paying for imports, which is more or less a "cash and carry" arrangement. This is gradually restoring the confidence of the international business community in Nigeria. It also ensures that we can no longer accumulate trade arrears.

Q: Are there any circumstances—such as a sharp drop in the oil price—under which you would consider drawing on an IMF loan, to which Nigeria is now entitled?

A: If we were able to survive 1986, when the price of oil dropped to as low as $7 per barrel, without resorting to an IMF loan, one can safely say that since 1987 is unlikely to be worse than 1986, the question of utilising an IMF loan does not arise.

Another important factor to consider is that the IMF loan is a short-term facility and what Nigeria really needs for growth and development is long term capital of the World Bank variety.

This notwithstanding, we have enjoyed very strong support from both the IMF and World Bank in rescheduling our foreign debts; it is our intention to maintain the excellent relations which now exist between our country and the international financial community.

Q: Could you suggest a date by which you would like to see the first and second tier exchange rate merge? And would you forecast at what rate to the dollar the merger might take place?

A: One cannot suggest a specific date when the first and second-tier exchange rates will merge, but the expectation is that the two rates will merge before the end of the structural adjustment period.

I will not hazard a guess as to the rate at which the merger will occur; any statement that I make in that regard will be taken as indicative of Government commitment to a predetermined rate, and the SFEM will definitely be influenced by such a statement.

Q: The tariff structure is under review: what are the guiding principles in establishing the new rate?

A: The guiding principles in establishing a new tariff regime are the following:

Firstly, the new structure should be capable of offering effective protection to genuine local industries.

Secondly, it should avoid perpetuating inefficient industries especially those that are over-dependent on imports.

Thirdly, it should discourage imports and encourage the use of local raw materials.

Fourthly, it should ensure consistency between import excise and export duties; and finally it should ensure reasonable and fair competition between imports and exports.

Q: Although government-to-government debt (under the Paris Club) and commercial bank debt (London Club) have been rescheduled, the rescheduling of uninsured trade debts has yet to take place.

Would you comment on creditors' anxieties about the slow pace of the reconciliation of their claims against documents held by the Central Bank; and their concern that as matters stand only about 40-50 per cent (4$ billion) of their claims looks likely to be recognised by the Central Bank as authentic?

A: I do not see the reason for anxiety on the part of our creditors. We have always accepted our domestic and foreign obligations. Negot[illegible]ns with both the London C[illegible] and the Paris Club have be[illegible]nalised, and we have ac[illegible]ed our genuine liabilities.

With regard to uninsured trade debts, the [illegible]tion is being undertaken by a reputable international bank, the Chase Manhattan Bank and whatever this bank agrees with our Central Bank will be settled by us.

However, where a creditor feels unable to accept the outcome of the verification and authentication exercise, he is free to seek redress through arbitration.

Q: Nigeria's reputation as a reliable trading partner and investment opportunity has taken a battering over the past few years; what reassurances can you offer to companies trading with, and contemplating investment in, Nigeria?

A: I am sure our creditors and the foreign investors in Nigeria have been watching the progress of our structural adjustment programme. I also feel certain that they must be aware of the institutional reforms which we have carried out such as the abolition of commodity boards, liquidation of the National Supply Company and the National Freight Company and the abolition of the import licence system.

Moreover, exchange control has been abolished, giving way to a market-determined exchange rate system.

These various measures along with the endorsement of our structural adjustment programme by both the World Bank and the IMF should send a positive signal to our trading partners and would-be investors that the economic climate has become more auspicious than it has ever been.

Q: What role do you envisage the export credit agencies playing in Nigeria's economic recovery?

A: Export credit agencies of developed countries, while performing their legal role of promoting the exports of their respective countries, can also play a positive role in the economic recovery of Nigeria by providing credit cover for capital goods exports to Nigeria.

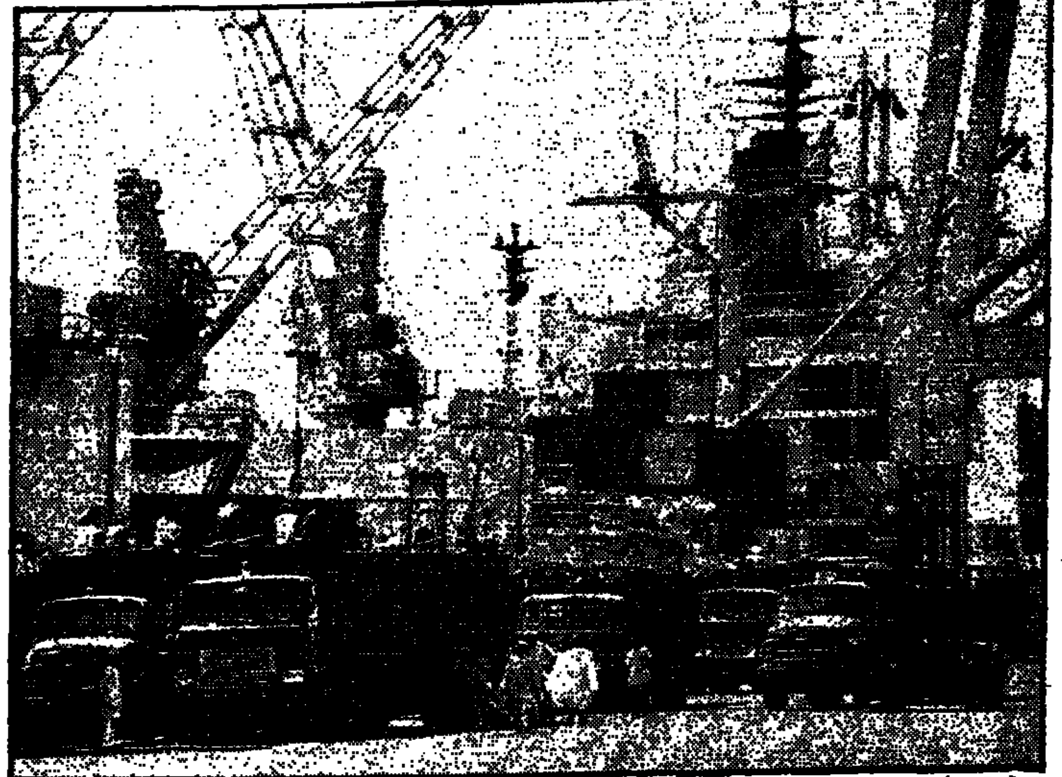
However, it must be emphasised that Nigeria will not use export credits indiscriminately. We will only use them to supplement our own foreign exchange resources.

We would like to use export credits to produce goods for export and for investments which are required to produce intermediate and capital goods for the Nigerian economy.

Q: Do you intend to reduce the subsidy on domestic petroleum?

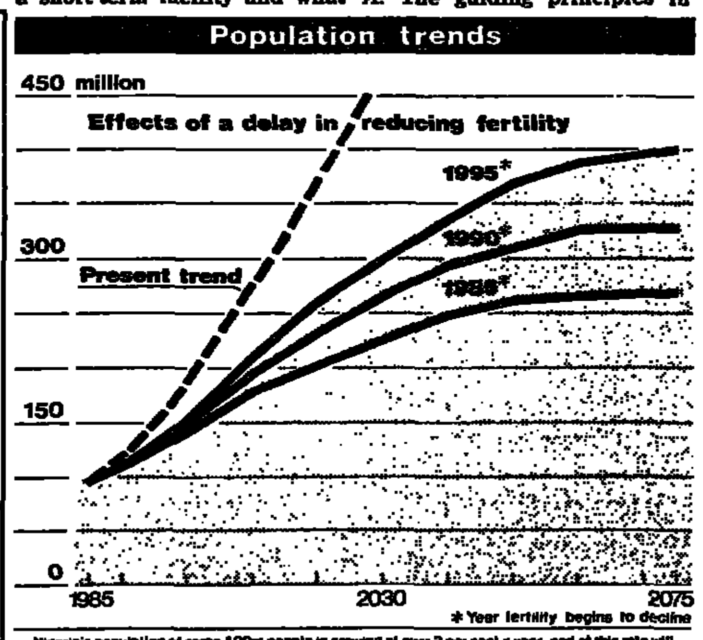
A: Government has taken a decision to phase out subsidies in order to remove inefficiency in the allocation of resources. Care has to be taken, however, that our other social, economic and political objectives are not jeopardised by indiscriminate, precipitate and wholesale elimination of subsidies.

The existing petroleum subsidy will be phased out over time in a manner consistent with our policy of moderating domestic inflation and ensuring social stability.



Nigeria is trying to send more positive signals to its trading partners. Above: imports are unloaded at Apapa Keys, Lagos, the nation's commercial capital.

Population trends



Nigeria's population of some 100m people is growing at over 3 per cent a year, and at this rate will exceed 280m by 2015. A decline in the fertility rate from the existing average of 6 to 7 children per woman to slightly over 2, would have a dramatic long-term impact, as the graph illustrates.

Population

Explosive growth must be checked

"IT'S ONE of the most important issues facing Nigeria," says Dr A. B. Sulaiman, Director of National Health Planning, as he outlines the economic and social implications should the country's rate of population increase go unchecked, carrying the prospect of 500m people by 2030—or five times the existing number.

The precise size and distribution of the population has long been a contentious issue, in part because Nigeria's largely Moslem north and the mainly Christian south and west vie with each other as to which forms the majority religion, and in part because the distribution of Federal Government revenue to the 19 states takes their population into account when determining the size of their respective allocations and their representation in central government.

The last census was in 1963, and using that as a base, the country's National Population Bureau estimated the 1980 population at 85m, and puts today's figure at between 90m and 100m.

"Should birthrates remain at their present levels," warned the Bureau in 1985, "the Nigerian population would increase by about 2.8 times its present size over the next 30 years, reaching more than 280m persons by 2015."

The exact rate of population increase has been difficult to determine, but researchers drawing on a national fertility survey conducted in 1981-82 calculate that the rate of population growth is about 3.4 per cent a year, one of the highest in Africa after Kenya, Zimbabwe and the Ivory Coast.

According to the fertility survey, women in Niigeria bear an average between 6 and 7 children.

While birthrates have remained high, points out the Population Bureau, deathrates have come down from 27 per 1,000 persons in 1950 to 17 by 1980, while life expectancy at birth rose from 36 years to nearly 50 over the same period.

No sector of the economy is left untouched by the consequences of the dramatic growth in the population, whether it is the growing proportion of oil which has to be reserved for domestic use rather than export, the ecological consequences of deforestation as a result of rural energy needs, or the inability of commerce and industry to create sufficient jobs to satisfy hundreds of thousands of school leavers each year.

These issues are highlighted in a study produced by the federal ministry of health and the Population Bureau, which illustrates the impact of a population increase at current rates. On a conservative assumption of a 5 per cent annual increase in domestic use of oil, which accounts for well over 90 per cent of export earnings, local consumption would rise from about 274,000 barrels per day in 1982 to 645,000 bpd in year 2,000.

The picture is equally disquieting when it comes to jobs.

"With high fertility continued," says the study, "1,087,000 school leavers would need employment in 2000 as compared with an availability of 245,000 new formal sector jobs . . . the gravity of this situation is underscored when one considers that the 60 per cent of primary school leavers not expected to make the transition to secondary school are not taken into account in these projections, although many school leavers anticipate that even a primary education entitles them to modern sector employment."

A decline in the fertility rate could bring about dramatic long-term results, say health planning ministry officials. Should the rate drop to a three child per woman average by 2005, the population would grow to 146m persons in 2000 (com-

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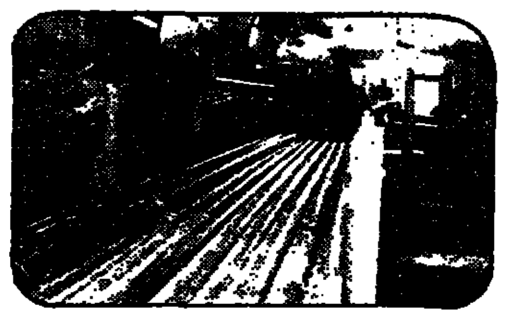


Politics

Cautious views on civilian rule

PRESIDENT Ibrahim Babangida appears unequivocal about his pledge to return the country to civilian rule by 1990. "This administration has no desire to stay in power a day longer than necessary," he told N$igerians in his 1987 New Year address.

The commitment has acted as a valuable safety valve since the military took power in August 1985 from the previous military regime of General Buchari. The first round of the transition to civilian rule began last year when Nigerians were encouraged to offer their opinions on the country's constitutional future to a Political Bureau, whose interim report has been submitted, and whose detailed assessment of the options available will be concluded later this year.

No details of the interim report have been made available, but it seems clear that whatever political system is adopted, the government is determined not to follow the pattern of the last change from military to civilian rule, in 1979, when the outgoing administration of Gen. Olusegun Obasanjo stepped down after elections won by Alhaji Sheu Shagari and the National Party of Nigeria (NPN).

"We are not simply going to hand over the baton to a new government, passing overnight from a military government to a civilian government," says a senior member of the Armed Forces Ruling Council (AFRC), the country's 29-member executive body.

Many Nigerians are deeply sceptical that a return to civilian rule would necessarily mean a change for the better or even feasible in 1990.

Instead, government is working towards what officials term "a transition programme," begining some time this year with what is called "grass roots participation." Just what this means has yet to be spelled out but there is speculation that it could refer to local government elections conducted not on a party political basis—political parties are still banned—but nonetheless giving voters a chance to select their represenatives from a range of local candidates.

The next step is less clear. It may be that government will want to increase the number of civilians in the administration—half the 22-member National Council of Ministers are already civilians.

But few observers are prepared to predict the shape of the new constitution under which an eventual change in government would take place. Having discovered that neither a Westminster-type system nor the US-style presidential constitution of the Shagari era can withstand the stresses and strains of Nigerian society; both politicians and the military are still wondering just what structure is best suited to Nigeria.

The most enthusiastic supporters of the return to civilian rule are, naturally enough, the politicians themselves office holders during the civilian administration of President Shehu Shagari have been banned from standing for electon for ten years. Forced, for the most part, to lie low and live off their frequently ill-gotten gains, they are buoyed by the belief that sustains politicians the world over: that the electorate would like nothing better than a chance to vote them back into office.

Whether the electorate, for all its dislike of military rule which has marked Nigeria for all but nine of the years since independence in October 1960, is quite so enthusiastic is another matter. In contrast to the mood of excitement and optimism that marked the last run-up to civilian rule, many Nigerians appear deeply sceptical that it will necessarily mean a change for the better.

There are also Nigerians who wonder whether a handover by 1990 is either wise or feasible. In the view of many economists, the structural adjustment programme, which officially runs until mid-year 1988, will need much longer before the economy begins a sound recovery. Some officials are privately wondering whether the country can afford what they see as the distractions of party politics in the meantime, and whether the politicians, looking for electoral popularity, could be trusted to follow through the programme's commitment to far-reaching economic changes.

The experience of a former military leader, Gen Yakubu Gowon, has shown that wavering on a date for the return to civilian rule can be dangerous. General Gowon's postponement. The target date of 1976 was a factor in his overthrow in 1975.

If, however, the call for a phased return which stretched beyond 1990 were to come from some of the politicians themselves, community leaders and businessmen, it is not inconceivable that the timetable could change without undermining what President Babangida calls the "unshakeable commitment to establish a viable and enduring people's oriented political system, devoid of perennial disruptions."

In the meantime, the government not only has to implement economic reforms but also handle some delicate domestic political issues. The administration remains haunted by what is perhaps its most serious misjudgment: the decision in August 1985 to change from observer status to full membership of the Organisation of Islamic Conference (OIC), which had the effect of exacerbating religious differences between the country's Moslem and Christian communities.

The term decision is perhaps a misnomer, for it remains unclear as to who authorised the apparent change in status. Ever since the subsequent furore, the government has equivocated on the question of whether Nigeria is indeed a member of the Conference.

Nigeria's place was vacant at last January's meeting in Kuwait of the Conference, a clear indication of the government's attempt to shelve the contentious matter. Although the public debate has subsided, there are factions in both religious communities who are unwilling to let the matter rest. In the past there have been clashes in the north between government forces and Islamic extremists, and tensions still lie not far below the surface.

A second issue of contention—for which the government was not responsible—may yet subside, but it nonetheless illustrates the potential regional rivalries within the country.

Gen Olusegun Obasanjo, a Yoruba who was Nigeria's leader from 1976 to 1979 chose January 15 this year as the day on which to launch his biography of Maj Chukwuma Nzeogwu, architect of the unsuccessful coup which took place on the same day in 1966. Alhaji Sir Ahmadu Bello, the Sardauna of Sokoto and premier of what was then Northern Nigeria, and Alhaji Sir Abubakar Tafawa Balewa, the prime minister of the Federation, were killed. This tragic episode helped set in train a sequence of events which led to Nigeria's 30-month civil war over the secession of Biafra.

Gen Obasanjo in no way condones the actions of a man who was his close friend, but his portrayal of the major, born in eastern Nigeria where many regard him as a hero, as a misguided idealist has struck northerners in particular as profoundly insensitive.

On the foreign policy front, Nigeria has continued closely to watch developments in neighbouring Chad, but the government's influence is limited. "The Chadian crisis has proved intractable," says Prof Bolaji Akinyemi, Nigeria's Minister of External Affairs, "not only to the Nigerians, but also to the French, the Libyans and other actors who have attempted to mediate, conciliate or impose a solution."

Apart from the apparent intractability of the longrunning dispute, the government has reason to tread cautiously. Although the administration has no sympathy with the Libyan cause, it is reluctant to antagonise the unpredictable Col Muammar Gaddafi in case the Libyan leader might seek to encourage the religious extremists in northern Nigeria.

Relations with Britain have recovered since the low point reached in 1984 when both countries withdrew High Commissioners in the wake of an abortive kidnapping attempt in London of a prominent Nigerian exile, Mr Umaru Dikko, and notwithstanding the UK's profound irritation over Nigeria's leading role in the boycott of last year's Commonwealth Games.

The Bank of England played a prominent part in arranging a $250m bridging loan from western central banks to help finance the first auctions of hard currency under the two-tier foreign exchange system introduced last September, while Britain's Export Credit Guarantee Department (ECGD) has been supportive in Nigeria's efforts to reschedule the country's insured trade arrears—points which helped ensure a good reception for Mrs Lynda Chalker, Minister of State at the Foreign Office, when she visited Nigeria in January.

Two potential sources of friction could change the picture: Britain's requirement since February 1 that Nigerians obtain a visa for visits to the UK, and a dispute over the terms on which British Caledonian Airways operate to Nigeria.

British officials, who point out that UK passport holders require visas for visits to Nigeria, say the new system should end or reduce the hold-ups Nigerian travellers have experienced at immigration posts in the UK. Regular visitors to Britain can also obtain multiple-entry visas valid for two years (a facility not readily available to British travellers to Nigeria).

The Nigerian government itself has not protested about the new arrangement, but some officials are privately beginning to complain about alleged delays in granting visas. The matter took a further twist in mid-February when the government ordered the closure of the High Commission's newly-opened £1m visa office, apparently on the grounds that traffic congestion outside the office could pose problems in an area which includes the presidential offices.

The dispute over the air route is based on Nigeria Airways' concern that British Caledonian operates to and from the northern city of Kano as well as Lagos, while the national airline serves only one UK destination — London. Nigeria Airways has been offered — and apparently turned down — a second UK destination. In January the government gave formal one-year notice of termination of the air traffic agreement unless the dispute is resolved.

The US also has had its difficulties, though of a different sort. A 10-hour visit to Lagos in January by Mr George Shultz, the US Secretary of State, turned into a public relations fiasco.

The substance of his talks with President Babangida and senior ministers — which included endorsement of Nigeria's economic policy — was almost ignored by local press and television, outraged by what they saw as the high-handed takeover of Murtala Muhammed Airport by US officials responsible for the Secretary of State's security, and gave a sniffer dog named Baron as much prominence as Mr Shultz himself.

Michael Holman

Armed Forces Ruling Council

President and Commander-in-Chief of the Armed Forces of Nigeria: Major Gen Ibrahim Badamasi Babangida.
Chief of General Staff, Rear Admiral Augustus Aikhomu.
Minister of Defence, Major Gen Domkat Y Bali.
Chief of Army Staff, Major Gen Sani Abacha.
Chief of Naval Staff, Rear Admiral Patrick S. Koshoni.
Chief of Air Staff, Air Vice Marshal Ibrahim Alfa.
Inspector General of Police, Mr Etim Inyang.
Minister of Agriculture, Major Gen M. G. Nasko.
Commandant, Command and Staff College, Major Gen Paul Omu.
Air Officer Commanding, Training Command, Air Vice Marshal Mohammed Yahaya.
GOC 1 Mech Division (Kaduna), Brigadier Peter Adomokai.
Commander, Training and Doctrine Command, Brigadier Duro O. Ajayi.
Commander, Nigerian Army Corps of Artillery, Brigadier A. B. Mannan.
Director Joint Services GHQ, Brigadier Ola Oni.
GOC 2 Mech Division (Ibadan), Brigadier Garba Duba.
GOC 82 Division (Enugu), Brigadier Oladipo Diya.
GOC 3 Armoured Division (Jos), Brigadier J. N. Dogonyaro.
Director, DIA, Commodore M. A. B. Elegbede.
Flag Officer Commanding Naval Training, Commodore Ndubuisi Kanu.
Flag Officer Commanding Eastern Naval Command, Commodore Stephen Aloko.
Flag Officer Commanding Western Naval Command, Commodore A. Nyako.
Air Officer Commanding Tactical Air Command, Air Commodore Nurudeen Yusuf.
Director of the Roads and Rural Infrastructure Directorate, Air Commodore L. Koinyan.
Air Officer Commanding Logistic Command, Air Commodore N. Iman.
Minister of Internal Affairs, Col J. N. Shagaya.
Director of Military Intelligence, Col Haliru Akilu.
Minister of Communications, Col A. T. Ayuba.
Commander, Corps of Signals, Col David Mark.
Director, Army Staff Duties and Plans, Brigadier Y. Y. Kure.

State Military Governors

Anambra: Group Capt Samson Omeruah.
Bauchi: Col Chris Garuba.
Bendel: Col John Inienger.
Benue: Col Ishaya Bakut.
Borno: Lt Col Abdul Muminu Aminu.
Cross River: Comm I. E. Prince-will.
Gongola: Group Capt David Jang.
Imo: Lt Comm Amadi Ikweche.
Kaduna: Lt Col Abubakar D. Umar.
Kano: Wing Comm Mohammed N. Umaru.
Kwara: Lt Col A. Abdullahi.
Lagos: Navy Capt Mike Akhigbe.
Niger: Lt Col G. A. Mohammed.
Ondo: Col E. B. Opaleye.
Ogun: Col Raji Rasaki.
Oyo: Col Tunji Olurin.
Plateau: Col Lawrence Onoja.
Rivers: Col Antony Ukpo.
Sokoto: Col Ahmed Daku.

National Council of Ministers

Minister of Agriculture, Water Resources and Rural Development, Major Gen Gado Nasko.
Communications, Col A. T. Ayuba.
Defence, Major Gen D. Y. Bali.
Education, Prof Jubril Aminu.
Employment, Labour and Productivity, Brigadier Ike Nwachukwu.
External Affairs, Prof Bolaji Akinyemi.
Federal Capital Territory, Abuja, Air Comm Hamza Abdullai.
Finance, Dr S. P. Okongwu.
Health, Prof Koye Ransome-Kuti.
Information and Culture, Prince Tony Momoh.
Internal Affairs, Col J. N. Shagaya.
Industry, Lt Gen A. I. Akinrinade.
Justice, Prince Bola Ajibola.
Mines, Power and Steel, Alhaji Buna Sherrif Musa.
National Planning, Dr Kalu I. Kalu.
Petroleum Resources, Alhaji Rilwanu Lukman.
Science and Technology, Prof Emmanuel Emovon.
Social Development, Youth and Sports, Air Comm Bayo Lawal.
Trade, Alhaji Samaila Mamman.
Transport and Aviation, Brigadier J. T. Useni.
Works and Housing, Alhaji Abubakar Umar.
Special Duties, Air Vice Marshal A. I. Shekar.

Population soars

Continued from Page 2

pared to 163m at the present fertility rate), nearly 200m by 2015 (280m at the present rate) and around 250m by 2030, against over 500m.

At the three child per woman average, the gap between the number of new secondary school leavers and the number of new formal sector jobs would be 803,000 in 2000 and 599,000 in 2015, compared to 842,000 and 1.4m in the same years, at current growth rates.

Officials acknowledge that the calculations include assumptions that may prove wrong: a boom in world oil prices would have far-reaching effects on Nigeria's capacity to sustain its growing poplation. But the officials point out that a population programme requires decades to take effect.

"You have got to make your plans on the basis of the best available data," notes one official, "and think decades ahead, not years ahead," pointing out that whatever programme the government adopts there is already an "irresistible momentum" to population growth.

As the Ministry of Health study explains: "Where fertility has been high, as in Nigeria, the population is composed of a proportionately large number of young people (over 47 per cent under 15) and a porportionately smaller number of older persons.

Consequently, each year the number of young people entering their reproductive years exceeds the number moving out of their reproductive years.

"Even if young women have only two children each, there will be so many young women that more births will occur than deaths for at least 40 years, and the population will continue to grow until the disproportion in the number of young people disappears. Thus, an irresistible momentum for future growth is built into the age structure of the population".

In short, even should the fertility rate decline dramatically to two children per woman, beginning this decade, Nigeria's population will nearly double in 25 years, to some 200m people.

Clearly the authorities face a formidable task. The Government is expected to approve shortly a national population policy which has the target of reducing fertility to four children per woman by year 2000, through a programme which increases public awareness of what is at stake, backed by greater availability of family planning services.

"The government advice", says Dr Sulaiman, "will be that if you already have four or more children, then have no more. If you have less than four, make four your ceiling. If you have not started a family, then space your children—but again make four your limit".

"But in the longer term, we might have to treat two children as the ideal target," he adds.

The awareness campaign has already begun with barely a week going by without a Nigerian newspaper of magazine taking up the population issue, echoing the words of Professor Olukoye Ransome Kuti, the Minister of Health: "The need for halting the rapid increase in our population is undisputed"

Michael Holman

Economic reforms

A launch pad for expansion

WHILE 1987 is shaping up to be another very difficult year of falling output and employment in the Nigerian economy, the radical economic reforms of the past year should establish a launch-pad for sustained expansion in 1988-89 subject always to the crucial provisos of successful policy implementation and relative oil market stability.

In recent months, Lagos has bitten the economic policy bullet in a manner that seemed inconceivable a year ago.

To be sure, the full ramifications of naira depreciation have still to be experienced and there are many burning policy issues in the field of industrial policy, privatisation and agricultural regeneration that have still to be satisfactorily resolved, but for the time being there is a sense of momentum in the reform process that offers hope for the future of a kind that has not prevailed since the oil market slump began in 1981.

Structural adjustment programmes of the kind currently being implemented in Nigeria have an erratic—even unconvincing—record in sub-Saharan Africa.

Given the experience of countries such as Ghana, Zambia and Zaire, there is every justification for tempering optimism with caution. But the fact remains that Nigeria today has in place a set of policies which, if put to the test, would seem to offer a reasonable chance of steady economic progress after 10 very disappointing years.

For all its promise, the oil boom flattered only to deceive and the 1970s and early '80s were a decade of squandered opportunities. After increasing nearly 30 per cent in the 1974 to 1978 period, real Gross Domestic Product fell 20 per cent by 1986 at which time it was only 5 per cent higher than in 1974.

Given the rate of population growth, estimated at over 3 per cent annually, there has obviously been a steep decline in real living standards, both from the peak of the oil boom and even from the start of the oil bonanza in 1974.

Real per capita incomes grew 4 per cent annually in the mid-70s, but by the end of 1986 they had fallen by a third from their 1978 peak and were 25 per cent below their 1974 levels. So much for the oil boom.

This pattern reflects the oil industry's fortunes. Production reached its peak in 1980 when the oil sector accounted for more than a quarter of GDP, but by 1983 its share was below 14 per cent and it fell sharply again last year.

During this period, Nigeria developed an unhealthy dependence on its oil industry relying on it for 97 per cent of exports and more than 80 per cent of Federal Government revenues. When the oil slump came, Nigeria suffered greatly—qualitatively, as well as quantitatively.

On the quantitative side, exports, imports and government revenue fell precipitously while, on the qualitative side, a panopoly of controls and regulations were introduced to cushion the impact of the fall in oil revenues. At the same time, the strong naira, associated with the oil boom, undermined the competitiveness of agriculture. Imports surged to the point where they accounted for more than a quarter of GDP. Thus, the country which had been a significant food exporter 20 years ago, became a substantial food importer.

It was against this background that successive Nigerian governments moved—slowly and hesitantly—towards an economic reform programme. But the most convincing and effective steps were taken by President Babangida in his 1986 budget, a year ago, and in the structural programme launched in mid-1986 and consolidated in last month's 1987 budget.

The SAP has four main objectives:

- Diversification of the economy and reduced dependence on both oil and on imports.
- The achievement of fiscal and balance of payments viability by the end of 1988.
- The creation of a platform for sustainable, non-inflationary growth.
- Reduced investment and improved efficiency in the public sector.

The key instruments for securing this formidable list of objectives include the adoption of a realistic exchange rate policy, a strategy of trade and payments liberalisation, substantial deregulation of the economy, a revised tariff structure, privatisation of some parastatals and tight fiscal and monetary policies designed to curb inflation and reduce the public sector deficit.

To date, policy emphasis has focussed on the achievement of balance of payments and fiscal balance. The most important single reform was the creation of the second-tier foreign exchange market which resulted in a 75 per cent depreciation of the over-valued naira.

In concert, a new interim tariff structure has been introduced, fiscal and monetary policies tightened, and a start made on the long road towards privatisation of the 100 state-owed enterprises in the Nigerian economy.

The key to adjustment in the Nigerian economy is a healthy balance of payments. So long as import capacity was severely constrained by falling oil revenues and an untenable debt-service burden, there could be no meaningful increase in domestic output and employment.

The decision to allow the exchange rate to find its own level (up to a point) in the second-tier market, and the raft of policies aimed at boosting non-oil exports in both agriculture and manufacturing, are crucially important steps towards balance of payments viability. But higher levels of investment, production and employment could only be achieved if the pressure on the balance of payments was eased by debt restructuring.

This was largely completed in the final weeks of 1986 when Nigeria reached agreements with both the Paris Club of official creditors and the London Club of commercial banks. A major outstanding problem is the final resolution of the trade arrears situation whereby Nigeria's trading partners have submitted claims totalling some $9.7bn. To date the Nigerian government has accepted some $2bn of these claims and is expected to recognise a further $2bn against which promissory notes will be issued later in the year.

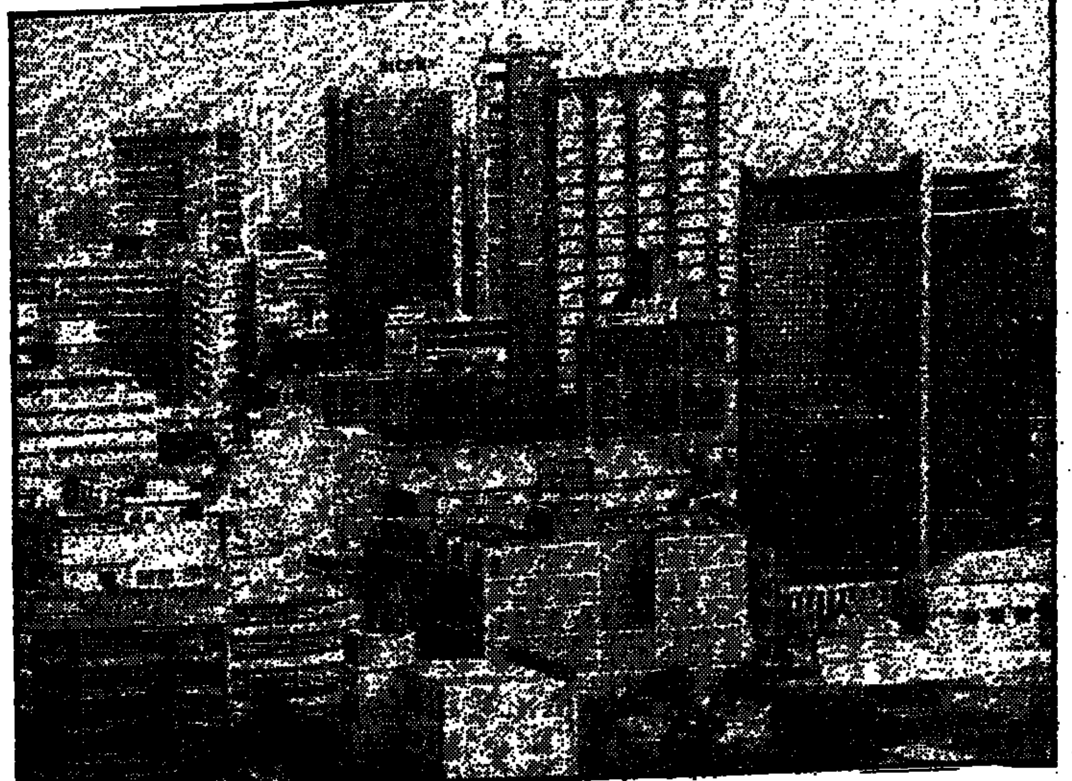
But even with the satisfactory conclusion of rescheduling arrangements, the balance of payments position will still be very fragile. The Ministry of Finance, whose projections are based on an admittedly conservative oil price projection of an average price of $15 a barrel for the 1987-89 period, estimates a current account deficit averaging $2.3bn a year. Once capital movements and rescheduling is taken into account, the overall financing gap widens to $4bn annually in 1988-89.

Since these projections were made, the Government has detailed its 1987 foreign exchange budget providing for total foreign exchange receipts of $4.97bn, assuming an oil price of $13 a barrel (gross) which after payments to producers implies a net return of some $10 a barrel.

This budget also includes some $400m of public sector services income and the draw down of the various loan agreements reached with the World Bank, the commercial banks and other agencies. Every $1 variation in the oil price has the effect of adding some $450m to foreign exchange earnings.

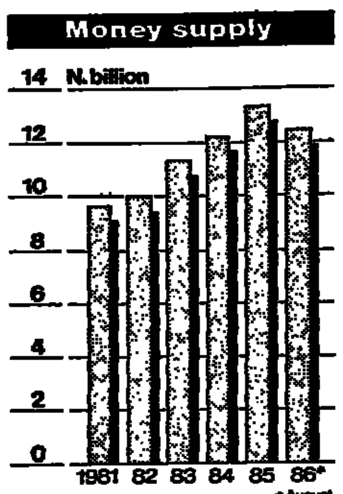
This means that if the oil price were to average $16 gross (or about $13 net), Nigeria's export revenues would rise from around $4bn in 1987 to $5.2bn, and total foreign currency inflows would be around $6bn rather than the forecast $4.9bn.

On the expenditure side, Nigeria has put a cap of 30 per cent of foreign exchange revenues on its debt-servicing committments. The actual debt-service ratio last year was 29 per cent while in the current year it is estimated at 21.6 per cent—a statistic which has excited considerable controversy in Lagos because the $1.6bn of interest and principal repayments actally amounts to almost a third of forecast foreign exchange inflows of $4.9bn.



Lagos has recently bitten the economic policy bullet in a manner that would have seemed inconceivable a year ago. There is a sense of momentum in the reform process.

Money supply



The debt service burden of $1.6bn implies that $3.3bn will be available to finance imports during 1987. This in turn, suggests that—at best—Nigeria will be able to sell some $63m of foreign exchange at the weekly currency auctions, though this amount will have to cover not just merchandise imports but also invisibles and service payments (other than public sector debt).

In recent weeks, the auction has been maintained at $50m a week, but as yet there is no evidence of public sector buying.

On the credit side, the prospect of an oil price averaging $2 or $3 more than the rather conservative Nigerian projection of $13 a barrel, could make an extra $15m a week available at the auctions which would make everyone in Lagos breathe more comfortably.

On these assumptions Nigeria is well-placed to make it through 1987, provided the policies are kept in place. But Government's own projections for the subsequent three years point to a financing gap of $3.75bn a year, implying that Nigeria will have to resume large-scale borrowing.

What is more, the projections are optimistic on at least three counts. For a start, they assume oil production of 1.5m barrels a day (mbd) against a current OPEC quota of only 1.23 mbd.

Secondly, they project a doubling of non-oil exports over the next three years which many observers believe to be optimistic and finally they assume new direct investment inflows of close on $500m annually, which Lagos industrialists believe to be extremely unrealistic.

Also worrisome is the fact that the Nigerian estimates of imports assume that restrictive strategies will be maintained throughout the 1980s. Imports are forecast to grow at only 7 per cent annually which does not look to be compatible with the growth target of 4 per cent a year for GDP.

From all this, it is obvious that balance of payments viability will depend crucially on oil market conditions, plus the success of the non-oil export drive, also Nigeria's ability to regain the confidence of the international banking community and on the capacity of the socio-political fabric to operate over a prolonged period at low levels of import absorption.

This is a formidable list of requirements to which must be added the country's ability to implement such a broad range of far-reaching reforms "thereby keeping five or six balls in the air at once," says one observer.

In the past, Nigeria has been noticeably short of just this kind of management capability. Peter Drucker has argued that some countries are not so much under-developed as under-managed — and Nigeria is a prime example of a country where managerial skills are desperately short, particularly in the public sector where rewards have tended to lag behind those available in private enterprise.

In this situation, it makes very good sense to economise on scarce public sector management skills by deregulating the economy, shrinking the public sector, allowing greater play for market forces and reducing state participation where possible.

By their very nature, however, such policies are essentially long-term. They are not going to reap rewards overnight and not even within the two or three years of a structural reform programme. This highlights yet again the need for Nigerians to give the policies time to work — which will not be easy after a decade of falling living standards.

Yet to set the record straight it is necessary to underline the very real policy implementation achievements that have already been seen. Thus, the Government has taken firm control over the budget, reducing the deficit (as a ratio of GDP) from a peak of 11.6 per cent in the last year of civilian rule (1983) to less than 1 per cent. The rapid growth of the money supply and in Government borrowing was slowed and then reversed in the second half of last year.

Furthermore, the inflation rate has been brought down from 40 per cent in 1984 to 6 per cent in 1985 and an estimated 15 per cent last year. Some modest increases in inflation is likely this year, but as yet there are no signs that currency depreciation will set off the inflationary spiral that Nigerians have long feared.

The second-tier market is working far better than most observers anticipated, partly because domestic credit has been kept under such tight control that there just are not enough naira around to push the exchange rate sharply lower.

This is not to deny that serious problems remain. Industrial policy is clearly going to be a very contentious arena with industry warning that its future has been jeopardised by the interim tariff which reduces the level of protection for many manufacturers.

On the well-worn principle that omlettes are not made without breaking eggs, there are bound to be some casualties in the industrial restructuring process, especially in the assembly industries. Many companies are currently caught in a scissors-like movement of escalating costs (because they rely so heavily on imported materials) and falling demand. Managers complain — with some justification — that 1987 is a most inappropriate time at which to reform tariffs.

Agricultural policy is another highly controversial area. The conventional wisdom that favours small-scale farms is under attack from those who say that Nigeria does not have the infrastructure and managerial skills in its rural economy fully to exploit the new set of economic circumstances.

They argue that the drive for local sourcing and backward integration that has already taken many industrial companies into farming ventures, should be given priority. However, some industrialists who have ventured into agriculture wish they had never done so and, instead, support the official strategy of small-scale farm development.

As elsewhere in sub-Saharan Africa, the Nigerian economic reform programme will stand or fall on agricultural performance. If the package of currency depreciation, price incentives and supplyside infrastructural improvements can rehabilitate the agricultural sector and revive traditional exports, such as cocoa and palm oil, then structural adjustments will pay off handsomely in the 1990s.

But if agriculture fails to take off, or if the political and social pressures of falling incomes and employment in urban areas prove too much for the system to endure, then a brave experiment, which deserves to succeed, may yet fail.

Tony Hawkins

Balance of payments

Figures in US $ bn

	1981	1982	1983	1984	1985	1986
Exports	19.9	12.1	10.5	12.0	12.6	6.8
Imports	20.7	14.7	11.4	9.0	8.3	5.4
Net invisibles	−6.0	−4.4	−3.2	−2.6	−3.3	−2.8
Current balance	−6.8	−7.1	−4.2	+0.4	+1.0	−1.4
Net capital account	1.3	5.1	+4.0	+0.1	−0.7	−3.3
Overall Balance	−5.5	−2.0	−0.2	+0.5	+0.3	−4.7

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Overseas trade: a massive increase in non-oil export volumes is needed if the target figure of $1bn is to be reached by the end of the decade

Reforms to boost exports drive

AN IMPORTANT goal of the structural adjustment programme is the doubling of non-oil exports by 1990, thereby reducing Nigeria's unhealthy dependence on the uncertain and volatile oil market.

Just how essential this is can be gleaned from the trade statistics showing that in the first half of the 1980s, non-oil exports averaged $450m a year—about 2.5 per cent of total exports. The bulk of these non-oil sales have been achieved by the cocoa industry with manufacturing industry contributing less than half of one per cent of total exports each year.

Balance of payments projections through to 1990 assume that non-oil exports will more than double from $400m last year to close on $1bn by the end of the decade. Given the steep depreciation of the naira, the obvious implication is that there will have to be massive increases in export volumes if this target is to be achieved, but considerable optimism is evident particularly in agriculture and more specifically in the cocoa sector.

A major thrust of the export drive is that of legitimising the already substantial cross-border flows of goods, including manufactures, from Nigeria into the ECOWAS states. The more realistic exchange rate for the naira is already diverting some such trade into more orthodox channels, Nigerian businessmen say, while the fall in the naira has given a considerable boost to agriculture where farmers are now receiving much higher naira prices for export production such as cocoa.

At the same time, Nigerians hope that the combination of a reduced exchange rate and the revised tariff will stimulate exports of manufactured goods. Indeed, in his budget address, President Babangida said the beneficial effects of the reform policies on exports were already evident.

Exports are also being encouraged under the new exchange system whereby exporters are allowed to retain all non-oil export earnings in so-called domiciliary accounts. These funds can then be used to finance necessary imports or sold through the second-tier foreign exchange market for naira.

Most of the previous bans on export products have been lifted along with export duties and licence procedures, while export documentation process has been simplified and streamlined.

A duty drawback scheme has been introduced that allows producers to import raw materials and intermediate items needed for export production to bring in their requirements free of any import duties and indirect taxes.

The aim of all thes policies is to eliminate the disincentives to export production and the initial signs are encouraging—the more so since with a depressed home market and substantial excess capacity, industrialists are being forced to look abroad for sales opportunities.

While there are grounds for non-oil export optimism in agriculture—assuming that the necessary supply side reforms in respect of improved infrastructure and marketing facilities are implemented—it would be unrealistic at this juncture to expect much growth in manufactured exports.

Industrialists stress that Nigeria is a high-cost producer, because of its poor infrastructure and its reliance on costly imported inputs. The ECOWAS states do offer an export market but they, too, are seriously short of foreign exchange and there are very few industrialists who see themselves as serious competitors with the East Asian exporters, even in neighbouring territories.

Having burned its fingers on countertrade in 1985, barter deals are being accorded a low priority with the exception of project-related transactions such as the Ajaokuta steel complex.

Officials says that no new countertrade deals are in prospect but industry sources believe that anything from 160,000 to 180,000 barrels of oil a day are still earmarked for existing projects in the mines, power, steel and energy sectors.

Ministers are reportedly very sceptical of involvement in new deals unless they are tied to high-priority project financing. One reason for this is that when the Government canvassed industry for possible countertrade transactions last year, it was presented with a potential list of deals running into billions of dollars.

Exports to Nigeria

• By OECD countries, figures in £m

Country	1985 Jan-Sept	1986 Jan-Sept	% Change
UK	762	424	−44
France	246	226	−8
West Germany	355	323	−9
US	407	189	−54
*Japan	196	85	−57
Italy	191	100	−48
Switzerland	62	81	+31
*Canada	20	7.5	−62
*Denmark	24.5	11.9	−51

*January to June

Scepticism has been bolstered, too, by the "illiquidity" of sales proceeds held in escrow accounts following earlier countertrade deals with Brazil and Austria. A Central Bank official describes these funds, estimated at some $500m, as "blocked resources," which is a major problem at a time of acute foreign exchange cash flow pressures.

Following the re-scheduling agreement reached in December with Nigeria's official creditors in the Paris Club, and the agreement with the IMF embodied in the Letter of Intent, the export credit agencies will be in a position to resume cover of exports to Nigeria in the second half of 1987. Bilateral discussions are to be held between Nigeria and the western credit agencies to clear the decks for the resumption of cover.

Given Nigeria's serious international liquidity problems and the urgent need to resume employment-generating projects, official export credit cover is likely to play a crucial role in enabling Nigeria to rebuild its import capacity.

Indeed, the Nigerian balance of payments projections assume some $900m of new money from Paris Club sources this year, though this looks to be a somewhat optimistic target.

Nigeria remains one of Britain's best export markets and in 1985 the UK share of total Nigerian imports of some N5.5bn was 20 per cent, down slightly from the 23 per cent share achieved in 1981. Nigeria's other major suppliers in 1985 were the US with 13.5 per cent, West Germany with just under 12 per cent, France with 8.3 per cent and Japan with 7.3 per cent.

On the export side, Nigeria's trade is dominated by Western Europe which in 1985 took almost two-thirds of its total exports—with France, Italy, the Netherlands, West Germany and Spain being the main importers of Nigerian oil along with the US which alone accounted for almost 19 per cent of the total.

In terms of total trade flows (imports and exports), the US was Nigeria's top trading partner with some 16.5 per cent of the total in 1985 followed closely by France with almost 14 per cent and Italy with more than 12 per cent.

Britain's share was 9.5 per cent while amongst the new trading partners, Brazil featured with more than 5 per cent—a reflection of the famous Cotia countertrade deal.

Tony Hawkins

A big rise in non-oil exports is being sought, but there is considerable optimism over the prospects in agriculture, particularly in the cocoa sector.

Foreign debt

More hope over trade arrears

WHILE MAJOR progress towards resolving Nigeria's long-running external debt problems was achieved at last year's meetings of the London and Paris Clubs of Western creditor nations, the trade arrears issue has still to be finally resolved.

The Nigerian authorities are optimistic of reaching final agreement with uninsured trade creditors in the next few months, thereby bringing to an end a saga which started in the early 1980s.

Nigeria's foreign debt difficulties have their origin in four main areas:

• The bunching of maturities and repayments for medium and long-term debt during the 1987/1990 period.
• The precipitous slump in oil prices, especially during 1986.
• The reckless build-up of trade arrears during the early 1980s, and
• An element of mismanagement of the external debt position.

Without any re-scheduling of these debts, Nigeria's debt-service ratio would have been some 76 per cent last year and only marginally lower in 1987. In response to this untenable situation, Nigeria reached debt restructuring agreements first with the London Club of commercial banks last November and then, in December, with the Paris Club representing the export credit agencies and bilateral suppliers of finance.

Trying to grasp the extent of Nigeria's external debt is a will-o-the-wisp exercise, primarily because of the uncertainty over the level of trade arrears. Thus, in September 1986, the Nigerian Finance Ministry estimated its external debt at $15.3bn while at the end of 1986—three months later—this was raised to $18.5bn.

The IMF in mid-year put the debt at $11.4bn of medium and long-term obligations, $1.7bn of rescheduled arrears due to the banks and uninsured creditors, an estimated $700m of short-term obligations—and possibly as much as $6.6bn in unrescheduled trade arrears, making a total debt burden of some $20.5bn.

The IMF's estimate of Nigeria's debt-service ratio—prior to the rescheduling agreements—suggested a figure of 130 per cent in 1986, falling to 82 per cent in the current year and averaging nearly 70 per cent in both 1988 and 1989.

Even in the early 1990s, it would still exceed 30 per cent.

The London Club Agreement with the commercial banks provides for the restructuring of all medium-term loans maturing between April 1, 1986, and the end of 1987, the refinancing of all claims in respect of letters of credit and—very importantly—the provision by the banks of $320m in new money during this year.

This agreement is, however, subject to its being accepted by a "critical mass" of creditor commercial banks.

The Paris Club agreement provides for the re-scheduling over 10 years, with a grace period of five years, of medium and long-term loans contracted before October 1985 and falling due by the end of 1987.

In addition, short-run trade arrears with official creditors or insured by the export credit agencies have been re-scheduled over eight years with a three-year grace period for debts incurred prior to December 1983, while subsequent arrears are re-scheduled over four years, with a one-year grace period.

While these restructuring agreements will give Nigeria a valuable—indeed, essential—breathing space during which the adjustment process will hopefully start to yield results, the debt position remains very formidable.

On the Nigerial Government's own projections the effect of re-scheduling is to reduce the debt service burden from an estimated $5bn in 1987 to only $1.6bn with the debt service ratio declining from more than 70 per cent to 23 per cent.

But even with rescheduling, the debt-service burden rises in 1988 to 61.6 per cent and will be higher in both the two subsequent years than would have been the case without a re-scheduling agreement.

The clear conclusion to be drawn from this is that Nigeria will almost certainly need to seek new rescheduling agreements to cover its 1988-89 obligations, as well as those already restructured for 1987.

External Debt

Figures in US$bn

Creditor	
World Bank	2.5
Bilateral loans	0.4
Commercial banks, and Euroloans	9.0
Trade arrears claimed	5.8
TOTAL	17.7

This much is apparent, too, from Nigeria's own estimates of its "financing gap," projected at more than $11bn over the three years from 1988 to 1990.

Clearly, higher oil prices would improve this situation very considerably. As a rough rule of thumb, it is argued that for every $1-a-barrel rise in the oil price, Nigeria's debt financing gap declines by some $450m.

Nigeria's own estimates of the oil price, rising from $13 a barrel in 1987 to $18.60 in 1990 are very cautious and to that extent the financing gap may well turn out to be less formidable than current projections imply. But even with a higher oil price, further rescheduling seems likely to be necessary next year and in 1989.

Apart from the need for major new capital inflows (or debt relief) over the next few years, Lagos needs to resolve the trade arrears situation as soon as possible. There is a very real danger that this will poison the country's international credit rating, unless resolved satisfactorily.

In a nutshell the problem is that trade arrears totalling some $5.8bn have been verified by Chase Manhattan Bank, acting for the Nigerians, who themselves say that only about $4bn of this debt has been verified.

While the Nigerians say that they will accept all "legitimate" debts, the trade creditors are critical of the fact that they have been waiting for three or four years to receive some sort of re-imbursement. Negotiations this month may bring this long-running saga to an end, but a failure to do so will undermine Nigeria's international credit-worthiness.

Looking ahead, Nigeria still has a very rocky road to travel over the next few years. While very substantial progress has been made in resolving Nigeria's debt crisis, the fact remains that without a significant increase in the price of oil, the country will remain a Third World debt problem well into the 1990s.

Tony Hawkins.

The budget

Deflationary forces at work

EVEN BEFORE the structural adjustment programme was adopted, the plummeting oil price had forced Nigeria into a tight fiscal stance.

With 75 per cent of federally-collected revenue derived directly from the petroleum industry and the balance highly dependent on the level of foreign exchange earnings, the steep fall in the oil price combined with the overvalued naira severely eroded the country's revenue base. Thus, the Federal Government's revenue which represented 25 per cent of GDP in the early 1970s, slipped below 20 per cent in 1984.

Lagos was increasingly forced into a deflationary fiscal stance by the need to earmark large amounts of official revenue for debt servicing and, as a result, project and capital spending was progressively reduced from more than 60 per cent of government expenditure in 1982 to less than 30 per cent last year.

Even with these cutbacks in capital spending, the Government was forced to borrow heavily from the banking system in the early 1980s with dire inflationary consequences.

Between 1981 and 1983 the budget deficit, as a ratio of GDP, was allowed to treble to the point where it reached 11.6 per cent. The Buhari administration reacted by halving the deficit/GDP ratio in one year, mainly by slashing investment spending and developing new sources of revenue such as the advance payment of import duties.

As a result, the budget deficit ratio fell to less than 3 per cent last year and could decline still further in 1987, if oil prices hold up.

In real terms, public spending last year was some 40 per cent below its 1981 levels with predictable consequences for the construction industry, for employment and for public maintenance works.

On the face of it, the 1987 budget looks to be heavily reflationary with its N6bn (62 per cent) increase in public sector spending, but because some N5bn is earmarked for external debt-service payments and a further N4bn for internal debt repayments and interest, the budget is much more likely to further intensify the deflationary forces already at work in the economy.

Although the Government says its budget assumes oil realisations averaging only $13 a barrel—compared with an actual average achieved during 1986 of $14—the contingent revenue estimate of an extra N4.5bn assumes a significantly higher fuel price.

How much higher depends on the forecast rate of exchange, but at the current exchange rate of N3.5 to the dollar and assuming that a one dollar rise in the oil price adds some $450m to Nigeria's foreign exchange earnings, the country would need to average about $15 to $16 a barrel during 1987 in order to reach its contingent revenue target.

It is only if this target is achieved that the budget deficit will be held down to the N2bn projected figure.

Clearly, further naira depreciation towards the N4 to the dollar level would ease the revenue position, but it would also imply higher domestic appropriations in order to service external debt and to that extent would be a case of swings and roundabouts, though Nigeria would stand to gain rather more on the swings than the foreign-exchange cost of debt service.

Just how reflationary the backpayment of debts owed to banks and contractors will be is a matter of some dispute in Lagos. Some economists believe probably *rightly*, that these repayments will intensify deflationary forces because the money will be used to reduce bank borrowings, to bolster corporate liquidity and to pay dividends rather than to increase current expenditures.

Others take a more upbeat viewpoint, arguing that the construction sector will be reassured and encouraged to rebuild capacity in the form of men and equipment in anticipation of new projects coming on stream in the latter half of 1987 once western creditors resume export credit insurance cover.

The tax changes in the 1987 budget are likely to give only a very marginal boost to demand. A Nigerian family earning N10,000 annually will have an extra N30 a month in disposable income as a result of lower tax rates and increased allowances, but this will fall well short of the inflation rate.

For companies, the reduced rate of company tax—down to 40 per cent from 45 per cent—and the lowering of the advance import duty payments burden from 100 per cent to 25 per cent will help ease already-strained corporate liquidity positions.

On the expenditure side, recurrent spending is being cut by the progressive elimination of subsidies to parastatals and to users—the petrol subsidy was abolished last year and the fertilizer subsidy cut to 25 per cent from 75 per cent.

The fetilizer subsidy is due to be eliminated over the next two years, but the petrol subsidy has re-emerged as a result of the operation of the two-tier currency market and the Federal Government is expected to announce higher domestic fuel prices early in the year.

Major new expenditure policies include a determination to keep the rate of public sector pay increases below that of the inflation rate, increased expenditure on maintenance and rehabilitation in preference to replacement of assets, the re-examination of projects deemed to have "low or doubtful economic viability," and a pledge to end all transfers to parastatals by the middle of 1988.

1986-87 Budget

Figures in Nbn	1986	1987
Federally-retained revenue	10.5	*15.5
Recurrent spending	5.6	10.7
Recurrent "surplus"	4.9	4.8
Capital Expenditure	5.9	6.8
Budget deficit	1.0	2.0

*Includes a contingent revenue *estimate of N4.5bn*

The clear hope is that privatisation of parastatals will both generate new cash flows to the Government (only N30m is expected from this source during 1987), but more importantly, reduce public spending by eradicating the need for subsidies.

As is invariably the case in Nigeria, doubts have arisen over the public sector's capacity to implement tight fiscal strategies, especially at a time when both political and business pressure for reflation will increase.

Additionally, there is concern over the Government's project selection criteria with bankers and aid agencies unhappy at the continued financial support for prestige projects such as the new capital at Abuja and the steel plant at Ajoakuta.

Tony Hawkins

Banking

Total change in the system

WITHIN THE space of six months, the ground rules of banking in Nigeria have changed out of all recognition. In the first half of the 1980s, the system became increasingly awash with liquidity with the liquidity ratio of banks rising from 45 per cent in 1982 to more than 66 per cent early last year.

This reflected huge government borrowings which trebled from N5.8bn in 1981 to N17.5bn at the end of 1985. Domestic credit doubled in the space of four years, but as the economy slipped further into recession, the private sector's demand for credit weakened.

Indeed, the banks became so liquid that in 1985 some were even turning away depositors—a short-sighted strategy in the light of subsequent developments. The situation changed radically in the second half of 1986 for two reasons:

- On the eve of the launching of the second-tier foreign exchange market (SFEM), the Central Bank called in naira deposits estimated at some N5bn that had been lodged with the banks by importers against pending foreign exchange payments.
- An additional N3.5bn has been withdrawn from the market as importers use their naira to purchase foreign exchange.

Thus, in a matter of months, close on N9bn has been withdrawn from the system giving rise to a credit crunch of serious proportions. For the banks, used to operating with "free" deposits which they could invest in Treasury Bills at 8 per cent, the changed situation has forced them into aggressive bidding for deposits on the one hand and close scrutiny of advances policies on the other.

The need for the latter has been underscored by the tight monetary policy guidelines imposed by the authorities.

After growing 16.5 per cent during 1985, the money supply fell 6 per cent in the first nine months of last year. Total bank credit continued to grow, increasing 7 per cent, but public sector borrowing was flat and—in contrast to the 1984-85 experience—private sector credit demand surged as importers had to pay up-front for their foreign exchange.

As banks have scrambled for money, so interest rates have risen, rising from 8 per cent to 9.5 per cent in January for call money and 12-months deposits increased from 12 per cent to 14 per cent. Lending by the commercial banks to the private sector increased 16 per cent in the first nine months of 1986 with the bulk of the drawdown occurring in the third quarter but this exceeded the credit ceilings of 10 per cent stipulated by the CBN.

In October, the Central Bank reacted by lowering the permissible rate of credit growth from 10 per cent to 8 per cent and this ceiling has been retained for 1987, as well. New and small banks are an exception to this rule and allowed to expand their lending by up to 15 per cent.

Some flexibility is built into the system for lending to preferred sectors—notably to agricultural production and the marketing of farm produce, to companies manufacturing for export and to enterprises engaged in export finance. Loans are to be made to such enterprises even where this would involve breaching the credit guidelines.

The Nigerian banking system has long been constrained by a plethora of regulations and direct controls designed to funnel credit to preferred sectors.

Initially, banks had to allocate their credit on stipulated criteria amongst 18 sectors of the economy, but this was compressed to eight sectors in 1984-85, to four sectors last year and only two in 1987. Half bank lending is now to be earmarked for the "high priority" sectors—namely agriculture with 15 per cent and manufacturing with 35 per cent. The balance is then to be spread over the remaining sectors of the economy.

Nigeria's new monetary policy is clearly designed to deregulate the banking system where possible and to allow freer markets to evolve.

Interest rates have been raised across the board, partly in response to the tighter liquidity situation, partly to keep a firm grip on credit growth but also to secure a positive real return to savers in the hope that this will increase savings levels.

The maximum lending rate, which was raised from 13 per cent to 15 per cent last October, has been retained at this level while the minimum rate payable on time deposits has been set at 12 per cent and that on savings deposits at 11 per cent.

Clearly these changes have far-reaching implications for the banks. The easy money days of free deposits that could be invested in Treasury Bills at 8 per cent have gone and margins are being squeezed with the banks having to pay at least 12 per cent for time deposits and lending them out at a maximum of 15 per cent.

But most important of all is the need for far greater technical expertise in a deregulated system. Nowhere is this more obvious than in the second tier foreign exchange market. The bureaucracy of applying for import licences has been replaced by very different banking and management skills in assessing the price to bid for foreign exchange at the weekly auction.

Tony Hawkins

Business performance

Turnover growth slows down

THE NAME of the corporate game in Nigeria has changed out of all recognition in the past six months, primarily reflecting the new foreign currency regime.

During the 1984-86 period, business performance was a direct function of access to import licences and to lines of credit to finance those imports. Demand ran far ahead of industry's capacity to supply, while factory-gate price controls allowed traders to amass huge profits by exploiting product scarcity. Company liquidity was high as stocks were run down and working capital requirements reduced.

In the 1984-85 financial year, results for some 46 listed Nigerian companies showed that while turnovers increased only marginally—up some two per cent—pretax profits surged 30 per cent. Margins—pre-tax earnings as a ratio of turnover—widened from 9 per cent in 1983 to 12.7 per cent in 1984 and 16.2 per cent in 1985.

The ability to boost profits at a time of falling or stagnant turnovers is explained by large-scale retrenchment, the normal holding-gains enjoyed during a period of rapid inflation, the productivity improvements associated with tighter management controls and a leaner labour force and production shifts to high-margin items wherever possible.

But results for 48 stock exchange-listed companies for the 1985-86 period show a different pattern. Turnover growth slowed to a mere 6.5 per cent from 30 per cent the previous year.

In part, this reflects some slowdown in inflation with the official figures suggesting inflation of only 5.5 per cent in 1985 and 7 per cent in the first half of last year. This compares with inflation of 40 per cent in 1983-1984.

Unlike the 1985 performance though, profit growth slowed to a trickle and margins narrowed. Pre-tax profits for the 48 firms were up a mere 2 per cent in 1985-86 while the profit margin on sales slipped from more than 16 per cent to just over 12 per cent.

Slower turnover growth is explained not just by reduced inflation but by weaker demand and falling output. Many factories were closed for months last year because very few import licences were issued in the first half of 1986 with the result that imported raw materials and components simply were not available.

At the same time, profit growth ground to a virtual halt once the "one-off" gains from labour retrenchment and inventory de-stocking had been digested. Companies that did enjoy sharply higher profits—such as Food Specialities with 186 per cent profit growth—bucked the trend because they were able to secure import licences at a time when few were being issued.

By contrast, Nigerian Breweries reported a 20 per cent turnover fall and a 63 per cent decline in pre-tax earnings because it was not able to secure import licences and overseas credit lines during the first six months of 1986.

The ball game following the second-term foreign exchange market (SFEM) promises to be very different. The emphasis has switched quite dramatically from preoccupation with obtaining imports to the financing of working capital on the one hand and marketing on the other.

What was a sellers' market has—almost overnight—become a buyers' market. The credit crunch in the final quarter of last year is clearly going to cast a long shadow over corporate performance during 1987. As a by-product of this, demand has weakened to the point where firms are being forced to cut prices at a time when they need to increase revenues to offset sharply higher costs for imported materials.

The good news is that the abolition of factory-gate price controls means that industry can sell at its recommended prices—assuming that the demand is there—rather that watching traders exploit massive margins. The bad news is that the demand is not there for many companies which are caught in a vice of escalating costs on the one side and consumer resistance on the other.

Tony Hawkins

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Naira devaluation

Mid-year merger of rates planned

AFTER YEARS *of argument* over the case for and against *naira devaluation*, the Nigerian Government finally took the plunge last September when it launched the Second-tier Foreign Exchange Market, widely known as SFEM.

On the experience of the first *four months*, SFEM has been highly successful, but the jury will remain out for some time given the fact that continued success will depend heavily on Nigeria's ability to find the necessary foreign exchange to keep the free market rate at an acceptable level.

While the naira depreciated some 30% in real effective terms *in 1985/6 a year ago it* was *still* some 35% above its average *1978/9 levels* and clearly substantially overvalued.

The real depreciation achieved prior to the launch of SFEM itself arose from a slower rate of domestic inflation within Nigeria, the fall in the US dollar from its February 1985 *peaks* and a deliberate policy of gradual naira depreciation carried out by the Nigerian authorities.

Despite this, the black market rate for the naira a year ago was some 5 times the official rate which stood at parity to the US dollar. By the time SFEM was launched, the first-tier *(official)* exchange rate had slipped to *N1.35 to the US dollar*, but at the first auction on September 29, the striking rate fell to N4.6 to the dollar. It then rose to five naira to the dollar before falling back towards the N3.2 level.

On two occasions in the first *four months of operations*, the authorities intervened to prevent the rate from *going* above N5 to the dollar and falling below N3.2 to the dollar.

On a third occasion last month the Central Bank intervened once again, deciding that the auction rate of N3.00 to the dollar *was unrealistic, and* setting the rate at N3.50. Within hours the Government stepped in, overturning the Bank's decision and setting the rate at the auction level, arguing that "as much as possible market forces *should be allowed to determine* the exchange rate.

Budgetary figures suggest that the Nigerian authorities were happy to see the rate stabilise around the N3.3 level but in fact the actual rate has been rather weaker than this in the N3.5 to N3.8 range until the mid-February Government intervention.

The strategy is to narrow the gap between the first and second tiers with a view to merging the two rates by midyear. To that end, the authorities have continued to depreciate *the naira on the first tier* bringing the rate down from N1.3 to the dollar to N2.6 in the last 5 months.

Bankers expect the two rates to merge in the range of N3.5 to N4 to the dollar but the authorities would prefer a rate in the region of N3.3

Almost all *transactions*—the main exception being debt-*servicing*—are being carried out at SFEM rates and accordingly little attention is being paid to first-tier exchange quotations. The importance of the first-tier rate is that it is being brought down to a market-determined level thereby underscoring the Government's new-found enthusiasm *for market forces*.

Clearly, the SFEM does not *operate as a completely* free market. Not only have the authorities intervened to move the rate in a desired direction but they *stipulate the levels* of applications by the banks—four are allowed to bid for 5% each of the total amount and the other 35 to 40 banks have a 3% ceiling on their bids.

The authorities influence the *rate, too, through the amount* they offer each week. The amount of foreign exchange auctioned has varied between US $50m and $75m but on present projections the authorities seem likely to be forced to offer no more than $50m each week since this would absorb the full $2.5bn *notionally earmarked for* SFEM during 1987.

Figures for the first 10 weeks of the auction show SFEM has been very successful in channelling funds to high priority areas. Of a total of $622m offered for auction during the first ten weeks nearly 48 per *cent was purchased for raw* materials and a further 32 per *cent for intermediate goods*, spare parts and machinery.

Only 17 per cent was used for finished goods and this included a high proportion of essential drugs and pharmaceuticals while the share *devoted to services and invisibles* was less than 2 per cent.

Looking ahead, it is clear that the continued success of the auctions depend crucially upon the maintenance of tight monetary policies and the continuing availability of adequate foreign exchange. Restrictive monetary policies, by *controlling the* naira available to purchase foreign exchange, contribute to exchange rate stability.

At the same time if the strategy of consolidation and growth is to succeed, adequate funding *must* be provided for the second tier market. On present *form* it seems that oil revenues and loans from the World Bank, the African Development Bank and the commercial banks will allow Lagos to offer at least $50m on the auctions each week through 1987.

Tony Hawkins

Stock market investment

Naira drop hits league position

ALTHOUGH NIGERIA'S hopes of seeing a major *breakthrough* in new issue activity during 1986 failed to materialise, it was *still* a good year for stock markets investors. The equity share *price index* covering some 95 listed firms increased 25 per cent *during 1986 following* a similar gain the previous year while the market's *capitalisation* was up by a quarter at N3.5 bn in January this year.

Despite this, Nigeria has lost considerable ground in the league table of Third World stock markets, slipping from *sixth position* in 1984 to the number eight spot at the end of 1985 and to *14th position* last year. The depreciation of the naira, particularly *since the* second tier foreign exchange market was launched last September, was one of the main reasons for Nigeria's league *table slippage*, but it still heads the league in Africa, (excluding South Africa).

In the past two years Nigeria has been overtaken by Mexico—which is in a recovery phase having been a market heavyweight in 1980—Jordan, Chile, Venezuela, Thailand, Argentina and Pakistan. It would be realistic to anticipate some recovery in Nigeria as share prices adjust to the new lower international value of the naira, but the tight credit squeeze and the expected fall in *profitability in 1987 suggest* that there will be a time-lag before prices recoup their *losses*.

Three issues are likely to be uppermost in the Nigerian capital market this year: the further, gradual growth of the Second-Tier Securities Market (SSM), the raising of new capital *through the issue market* as part of the privatisation exercise, and preliminary *efforts to internationalise* the Nigerian securites industry to some degree.

A year ago, only one company had gone to the market via the more liberal second-tier route, but during 1986 four more firms went public in this manner and another three are currently preparing *to* use the second-tier mechanism.

Also during 1987, a number *of* first-tier listings are expected as the Government *starts* selling off some its industrial investments in stage one of its privatisation programme. At present, five state-owned enter*prises-three* hotels, a bank and an electrical manufacturing firm-are being *considered* for new stock market listings.

But just as privatisation has caught the public fancy in Nigeria, so also has another *contemporary* market "buzz-word" — internationalisation. Nigerian bankers *argue* that their country must once again start to attract foreign capital *inflows*. The outlook for direct investment by multinational companies is not *good* and portfolio investent attracted from pension and mutual funds and *insurance* companies operating in the international capital market is seen as *a realistic alternative* by a handful of market enthusiasts.

However, there are major snags to such a proposal. Nigerian *indigenisation* legislation stipulates that such foreign share issues would have to be of *a "non-voting"* character and it has been suggested that these would not *attract* support internationally unless they were of the "participating *preferred*" variety, thereby giving investors a guaranteed minimum dividend *to compensate* for the loss of normal voting rights.

Continued on Page 8

Markets compared

- Stock market capitalisation in developing economies—how they compared in December 1985 in US$bn.

Brazil	43
Malaysia	20
India	15
Taiwan	10.4
Korea	7.4
Mexico	4.2
Jordan	2.8
Chile	2.0
Venezuela	2.0
Thailand	1.8
Argentina	1.4
Pakistan	1.4
Nigeria*	1.1

*=January 1987

The energy sector

Too dependent on an unpredictable master

SINCE 1958, *when Nigeria* exported its first cargo of crude oil, *the country's oil wealth has* been both a blessing and a curse. Oil gave Nigeria billions of dollars for development, but at the same time encouraged *profligacy* and obscured the importance of less glamorous sectors of the economy.

Today about a third of Nigeria's recoverable crude oil reserves have been consumed and Nigerians are increasingly *emphasising the need to diversify into other exports—including natural gas—before oil runs* out in perhaps 40 years.

In the meantime crude oil is earning well over 90 per cent of Nigeria's foreign exchange and therefore remains crucial for the health of the economy and the implementation of the military government's recovery programme.

Oil is an unpredictable master and Nigeria a vulnerable victim. Last year prices *collapsed as OPEC* tried to increase its share of the world market and Nigerian crude oil exports earned only about $6.5bn, compared with nearly $25bn in the heady days of 1980 and nearly $12bn in 1985.

OPEC's renewed effort since December to strengthen oil *prices by cutting production* and fixing prices now limits Nigerian output to a quota of 1.238m barrels per day (bpd), down from a peak output of 2.4m bpd in 1979

The Nigerian oil industry *faces a number of challenges* in the months ahead, in particular the need to maintain production and exports within the awkward framework of the fixed-price system.

As soon as the fixed prices came into operation at the beginning of February, it was clear that there could be serious problems. Bonny Light, Nigeria's marker crude, had a nominal price of $18.92 (the highest on the Opec scale of *differentials around the overall* target of $18) but a fluctuating market price which was considerably lower.

With the approach of the northern spring and the seasonal fall in world demand, oil companies were predicting increasing difficulties in marketing Nigerian crude on the basis of the Opec prices. *Selling at a discount from the fixed prices* seemed inevitable, *even if the discounts were to be disguised*.

One solution to the problem of marketing Bonny Light is to offer it in a package with heavier Nigerian crudes selling at smaller discounts from the fixed price.

The Nigerian oil minister, *Alhaji Rilwanu Lukman, who* last year became Opec Presi*dent, has insisted that the pric*ing system will work and dismissed fears about the effect of the differentials on Nigerian exports, although he has held out the possibility of minor adjustments.

He also said recently that the state-owned Nigerian National Petroleum Corporation (NNPC), the controlling partner in all major oil operations, was having no difficulty in signing long-term sales contracts with its *customers on the basis of the* Opec prices.

But the NNPC's equity partners—such as Shell, which lifts about half the country's oil—have serious reservations about the fixed price system and the *differentials from other Opec* crudes.

For the past year, until February, the oil companies in Nigeria have been receiving a roughly $2 per barrel profit margin on their own equity oil (20 per cent in the case of Shell and 40 per cent for the other big companies) as part of a deal with the Government whereby *they agreed to invest in exploration* and development for the *industry's long-term* future. Both sides seemed happy with the arrangement, the companies were making money and Nigeria was seeing investment in oil exploration despite plunging world prices and cutbacks in other countries.

"This was about the only place where we didn't cut capital spending," says one senior *oil company executive in Lagos*.

The incentive deal was based on a "netback" formula which adjusted the Government's take in taxes and royalties according to the level of realised prices. Now the companies fear that the *Government will insist on tax*ing them on the basis of the official price, which could trim their profits and ultimately persuade them to cut production.

That would mean a return to *the situation two years ago*, when the Government take was fixed in relation to a notional "posted" price. As prices fell in mid-1985 Nigerian output dropped quickly below 1m bpd, a crisis which helped to seal the incentive agreement.

The status of the accord is now uncertain and open to negotiation, although President Ibrahim Babangida declared in his New Year address to the nation that "this administration will continue in 1987 to provide adequate incentives to oil companies in a manner consistent with our long-term national interest."

Current output is set at Nigeria's Opec quota of 1.238m bpd, although the capacity for sustained production is considerably higher at about 1.8m bpd.

Oil companies say that Mr Lukman has been meticulous in ensuring that Nigeria, long regarded as a weak link in Opec, sticks to its quota. As Opec President, it would be embarrassing for him to do otherwise.

Nigeria nevertheless remains peculiarly vulnerable to vagaries of the oil business, partly because of its overwhelming dependence on oil exports and partly because of its position as a "swing" producer in the Atlantic basin, courted by buyers at times of high demand but without a permanent niche in the market.

Nigerian oil's main competitor, Brent crude from the North Sea, is of a similar high quality, is not bound by Opec quotas, and is available in Europe in a few days when prices are volatile.

Dealing with the international markets is demanding enough, but in Nigeria itself the Government has also to invest time and money in maintaining its production capacity, a goal *which appears to be threatened* by a shortage of NNPC funds.

Tarnished by old corruption scandals and a mysterious fire in the accounts department of its headquarters last year, the NNPC has been re-organised into five sectors—oil and gas, refineries, petrochemicals, piplines and product marketing and administration.

Nigeria's energy sector is the victim not only of uncertain world markets but also of uncoordinated planning and expenditure and the low priority given to maintenance of equipment and infrastructure.

The inadequacy of the National Electric Power Authority, for example, has prompted Nigerian companies and individuals to instal thousands of expensive, imported, fuel-guzzling generators with a total capacity of about 1,000 megawatts; the huge new Igbin power station in Lagos is running on expensive fuel oil because the gas pipeline to supply it has not yet been built; and the new petrochemicals plant at Warri cannot be commissioned yet because the Warri refinery providing the base materials is shut for repairs and maintenance.

Nigeria's future depends on more than the oil price. It depends on sound investment of the oil money and the maintenance of those investments.

Victor Mallet

Natural gas is the key to the future economic development of Nigeria, says the Petroleum Minister, Alhaji Rilwanu Lukman

Respecting Opec's prices

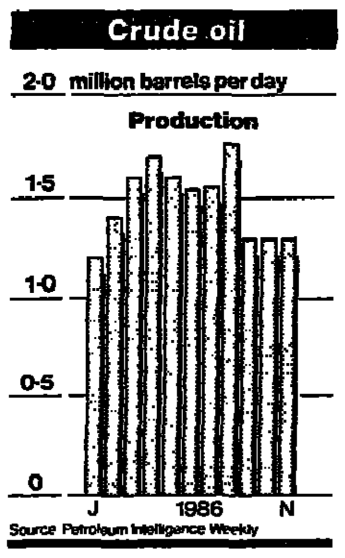
THE NIGERIAN Petroleum Resources Minister, Alhaji Rilwanu Lukman last year became president of the Organisation of Petroleum Exporting Countries (Opec). Here he discusses Opec policy and the outlook for Nigerian oil and gas with Victor Mallet.

QUESTION: Oil companies operating in Nigeria are concerned by Opec's new fixed prices and say they might have to cut production if actual market prices weaken and their profits are reduced. What will you do if oil prices fall substantially below Opec targets?

A: Given the considerable reduction in stocks due to the severer weather than anticipated in Western Europe, given that the original perceived demand (for Opec oil) was 17.1m barrels per day for this time of year, and given that Opec has cut production to 15.8, we don't foresee that there should be any difficulty in the price.

If anything, the price should be firmer than the 18 dollars a barrel that we were postulating.

If prices start shooting up much higher than we thought then it's up to us to decide what to do. We have an ordinary conference coming up in June, and we give ourselves the option of reviewing the situation.



Q: The differentials around the $18 price are causing some concern, with Nigerian Bonny Light at the top of the scale with a price of $18.92. Will Opec review the differentials?

A: We just want to make sure that no country is put at an undue advantage or disadvantage over the others.

We want to move all of the crudes and that's why we put the differential between Arab Heavy and Nigerian Bonny Light. They are the two terminal crudes that we use for the purposes of computing differentials. There might be some *minor adjustments* required one way or the other but there's nothing wrong with the basic figures.

It is obvious that the terminal crudes will be under pressure. Of course the Bonny Light is competing with Brent and we are marketing a lot of our crude in north-western Europe where Brent is the traded crude and there may be something there to look at, but we will see how we are doing.

What Nigeria is doing now is trying to act in concert with other Opec members to respect the quota and prices. It is in our interest to do so.

Q: How do you expect the new African Petroleum Producers Association (APPA) to interact with Opec?

A: It is clear that APPA will co-operate very closely with Opec, and in our communique (after the first APPA meeting in Lagos in January) we did express support for what Opec was doing to stabilise prices.

Q: Opec has received support from other non-Opec oil producers, but not from Britain. How do you feel about the British stance?

A: Maybe they will realise the sense of actively pursuing a policy that will stabilise the oil market. As it is now, if everybody did what Britain was doing, we know that would happen. Britain itself would be the worse for it. We know also for a fact that they are not entirely unhappy with the somewhat better prices that Brent is now fetching.

Q: Is Britain riding on the back of OPEC then?

A: Of course they are, there's no doubt about it.

Q: How have Nigeria's customers reacted to the fixed prices? Have they signed up for long-term contracts?

A: All have sent confirmation. Our contracts are long-term — for a year — subject to three months' phase-out.

As for our equity partners, they lift their own equity oil and we informed them that from February 1 we would be billing them on the official price.

Q: The nominal $2 a barrel profit margin on equity oil for the companies operating in Nigeria has helped to encourage exploration and development. But is enough being done to maintain the country's production capacity?

A: The margin we have given them is on the understanding that they will continue to invest. They have no excuse for not investing in exploration and development.

We have to sit down with the companies and plan how much more reserves we want to prove. We want to enhance the actual reserve position by doing more *exploration and development* work, and we want to improve the productive capacity.

We realise Nigeria used to be producing 2.4m barrels per day, so we want to rehabilitate our productive capacity. We can do up to 2m b/d at a push now.

Q: It has been said that Nigeria's long-term wealth is more in gas than in oil, but there have been delays in gas development. When do you see substantial development of Nigerian gas?

A: We are going ahead with the Escravos-Lagos pipeline. We have delayed it a bit, but we are pushing it forward now and this is going to be the major basis of the local gas utilisation programme, because that's going to bring gas up to Lagos. Don't forget that more than half our electricity generating capacity is fired on gas.

Gas is a key to the future economic development of Nigeria. The other very interesting project is LNG (liquefied natural gas). Again, we have gone very far on that one. We are still examining the details of the project with our partners—Shell, Agip and Elf. We hope to be able to sell gas by the middle of the 1990s.

We're *not worried* about the financing. We are putting aside the proceeds of the sale of a certain amount of crude in an escrow account which we are going to use to finance the Government's equity.

One of the strengths of the project is that our own equity will be available by the time it comes on stream.

If we ever go back to countertrade, that is probably the way we will do it. If you sell oil in a straightforward countertrade you may give a discount or the price of the goods may be *inflated*.

This way, you say it is a contract you are financing with oil and you negotiate the commercial contract in the normal way. We are not paying with oil, we are paying with dollars. If you give somebody oil who doesn't need it, he'll probably go and *flog it on* the spot market and depress your prices.

Q: When do you expect Nigeria's fourth refinery to come on stream, and will there be a fifth?

A: Some time in 1988 the *fourth refinery* should be ready. From a long-term point of view there's no reason why we should not build even more refineries. After all, some of our colleagues in Opec are primarily exporting *products, not crude* any more. It gives you value-added and increased employment.

We have a coastline close to where the oil is being produced and we are well positioned to export products as easily as we are exporting crude. So I wouldn't say five refineries—why not six, why not seven?

Q: Are you concerned by the smuggling of fuel out of Nigeria? Will the Government raise domestic fuel prices?

A: Of course, we're worried. Obviously something has to be done, and with the structural adjustment programme in place the idea is to remove imbalances in the economy. It has to be looked at with a little bit of care, politically.

Q: Nigeria does not want its oil to go to South Africa. But what is the position of companies which *have substantial operations in* South Africa as well as in Nigeria?

A: We don't want to get the two things mixed up. Anybody who lifts any oil must undertake not to take the oil to South Africa. We try to ensure that people abide by that undertaking and as long as they are doing that, as far as my ministry is concerned, that's the main thing. Certainly, politically, the Government does not encourage dealings with South Africa.

Q: How is the restructuring of the Nigerian National Petroleum Corporation (NNPC) going?

A: We are re-organising for better efficiency. We are going to convert some of the sectors that are mature enough into fully-owned subsidiaries of NNPC. They will be autonomous units within the NNPC family.

Q: And the plan is that they will be able to raise their own finance?

A: Within the guidance of the corporate *headquarters* of NNPC. The NNPC will act as a holding company. All the five sectors are ready.

After the organisational restructuring, there is going to be a financial restructuring. We will set up equity-loan ratios for each of the units, and for the holding company itself. We will also set performance criteria like return on investment, profitability and production targets.

Q: Some oil companies complain that the NNPC is late in paying its share of foreign *exchange costs in joint* ventures. How can this be resolved?

A: This problem arose only recently. What's happening is in the internal mechanisms of getting approval and getting the central bank to pay. We have already agreed with the NNPC, the Ministry of Finance and the central bank on a new way of doing it so that this money will be available for the purpose of joint agreements without the present rather circuitous method.

What we want is to get the money for the cash call put separately, so that it is available when it's wanted.

Petroleum Minister Alhaji Rilwanu Lukman, president of the organisation of Petroleum Exporting Countries (Opec). Nigeria is putting proceeds of the sale of a certain amount of crude in an escrow account which will help finance major gas projects.

World Crude Oil Output

Yearly Average '000 barrels per day. (Jan-Nov 1986 figure)

1	Soviet Union	11,243	8	Iraq	1,561
2	US	8,017	9	Nigeria	1,353
3	Saudi Arabia	4,590	10	Kuwait	1,312
4	UK	2,492	11	UAE	1,274
5	Mexico	2,197	12	Indonesia	1,237
6	Iran	1,722	13	Libya	949
7	Venezuela	1,571	14	Norway	850

Source (except UK, Norway): Petroleum Intelligence Weekly.

Opec Quotas

(000s b/d)

	Jan-June 1987
Algeria	635
Ecuador	210
Gabon	152
Indonesia	1,133
Iran	2,255
Iraq	1,466
Kuwait	948
Libya	948
Nigeria	1,238
Qatar	285
Saudi Arabia	4,133
UAE	902
Venezuela	1,495

Source: FT statistics

Internationalisation — the new buzz-word

Continued from Page 7

A more important difficulty is the fact that the proposed internationalised shares would not be listed on any *foreign stock* market, their prices might well be regarded as artificial by foreign investors who would also be worried about the liquidity of such investments and their ability to convert their holdings into cash at short notice.

In other words, internationalisation is a long way down the agenda and, for the time being, the Nigerian capital market is likely to have its hands full — especially in a monetary squeeze environment — in further developing its second-tier securities market and in preparing the ground for privatisation issues in 1988-89.

Tony Hawkins

Despite difficulties, still a good year for stock market investors.

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Natural gas

Vast reserves could last over 100 years

"GAS," says the Nigerian oil minister, Alhaji Rilwanu Lukman, "is a key to the future economic development of Nigeria." It is the kind of statement which has been made many times before and which will inevitably be repeated many times in the future before the country begins to reap the full benefit of its vast reserves.

On either side of the Niger delta, both on- and offshore, lie an estimated four trillion (million million) cubic metres of natural gas, worth substantially more in energy terms than Nigeria's oil reserves and sufficient for well over 100 years of exploitation as a domestic fuel and a major export.

The civil war from 1967 to 1970, plus frequent changes of government, and the high initial costs of development have all helped to delay the exploitation of Nigerian gas. Although gas generates more than half the country's electricity and powers some industrial enterprises, most of it remains in gas fields or is flared at the oil wells as uncollected "associated gas" accompanying the crude.

The Nigerian Government, short of money but aware of the long-term importance of its gas reserves, is pressing ahead with a scaled-down plan to export liquefied natural gas (LNG) to Europe from the mid-1990s.

Participating in the Bonny LNG project are the Nigerian National Petroleum Corporation (NNPC)with 60 per cent, Shell, the technical leader, with 20 per cent, and Elf and Agip with 10 per cent each.

Raising finance for the project and marketing the gas are both likely to be difficult, given Nigeria's debt problems and the unfavourable state of the world market.

Participants have emphasised the "low-cost" nature of the LNG scheme, saying they want to minimise capital and operating expenses, but it will still cost four to five billion dollars, with two production trains and a capacity of about five billion cubic metres a year. It could be expanded in the longer term to meet increased demand.

The first Bonny LNG project, now defunct, was three times the size and would have cost three times as much.

The Nigerian Government is already salting away a proportion of its oil proceeds in an escrow account to pay for its equity share of the project, but the loan finance will not be easy to come by.

Faced with stiff competition from eastern Europe and Norway, the Bonny LNG partners are hoping to squeeze unobtrusively into the European market with only a four per cent share.

"We have started with an optimum size which is manageable," said Mr Lukman in an interview with the Financial Times. "Then we'll let it grow as the market grows. But you have to get into the market first, however small you may start."

Interested potential customers include Ruhrgas of West Germany and Distrigaz of Belgium.

Mr Lukman is giving a high priority not only to LNG for export but also to gas for domestic distribution, another area plagued by lack of finance and poor planning.

The biggest domestic project comprises gas-gathering systems in Gulf and Shell concession areas, to be linked to a 380-km pipeline from Warri to Lagos, with a cost of more than $500m.

About half the money was to have been provided by the World Bank, but it withdrew its support because of a dispute with the federal government over fuel price policy. (The World Bank wanted domestic oil product prices to be increased so that gas would be competitive).

Continuing delays in the project have caused some awkward anomalies. The French and Japanese built 1,320 megawatt Igbin power station in Lagos, designed to run on gas from the non-existent pipeline, has begun its life by using expensive fuel oil. Shell's almost-completed Utorogu gas-gathering facility will have to supply gas temporarily to local industry through small lines until the main pipeline is built.

Another local product with potential is bottled liquid petroleum gas (LPG), a by-product of refining. Again, Nigerian refineries have the capacity to meet and stimulate domestic demand as well as provide a substantial surplus for export, but problems at the refineries have sometimes restricted output and created a need for imports. Nigeria's consumption is some 7,000 tonnes per month.

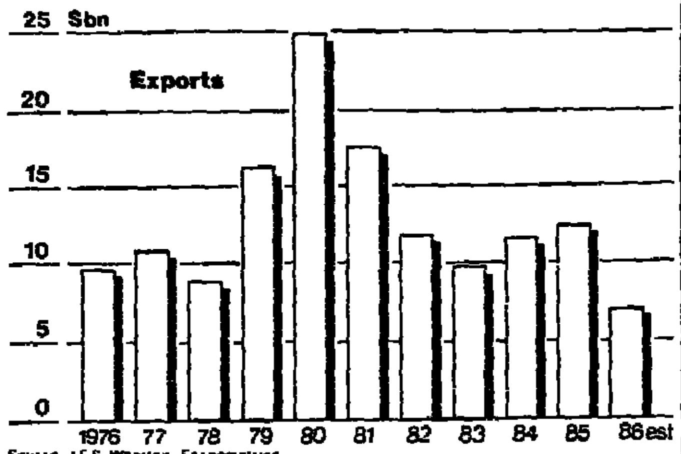
The state of Nigeria's gas policy has prompted calls for the establishment of an autonomous gas authority to coordinate development of the gas sector, and this was one of the main recommendations of a recent comprehensive study of Nigeria's energy needs and resources.*

Crude oil exports, which earn well over 90 per cent of the country's foreign exchange, may serve Nigeria for another 30 to 40 years. After that, the coherent use of gas reserves will be essential for the health of the economy.

*"Energy in Nigeria," by Richard Synge, MEED 21 John St, London WC1N 2BP, 1986. £85.

Victor Mallet

Crude petroleum



Nigeria is trying to act in concert with other members of the Organisation of Petroleum Exporting Countries (Opec) in respect to quota and prices.

New plant is due on stream by the end of 1988

$500m refinery under way

NIGERIA'S long-awaited fourth refinery is finally being built at Alesa-Eleme near Port Harcourt, but not without delays and recriminations over the external finance. The $500m project, undertaken by a Japanese-French consortium of JGC, Marubeni, Spie-Batignolles and Spibat (Nigeria), will have a capacity of 150,000 barrels per day (b/d).

When it comes on stream around the end of 1988, the new refinery should almost double the output by the existing refineries at Port Harcourt, Warri and Kaduna, and ease the difficulties of Nigeria's domestic fuel supplies.

The birth of the fourth refinery has not been easy. France has been accused of breaking ranks by at least one of Nigeria's other western creditors because its export credit guarantee agency Coface promised to cover the French side of the project, apparently in contradiction of an agreement not to provide new insurance until Nigeria's previous debts to export credit agencies are satisfactorily rescheduled. France argues that the project predates the suspension of cover two years ago.

Nigeria is siphoning off some of its oil money to pay contractors for the refinery and other French companies working on the Ajaokuta steel plant, but the money owed for the 15 per cent refinery downpayment and the Coface premium has been trickling in more slowly than the contractors would like.

The three refineries already in operation have a theoretical capacity of 260,000 b/d, but technical problems have severely restricted their throughput, and Nigeria has to be a net importer of refined products to meet its own requirements of 200,000 to 250,000 b/d.

Nigeria, in addition to a programme of rehabilitating and expanding the existing Kaduna and Warri refineries in the short term, fosters a more distant ambition to add value to a large proportion of its oil exports by refining them at home.

"Why not six, why not seven?" asks oil minister Alhaji Rilwanu Lukman when questioned about the tentative proposals for a fifth refinery at Calabar in Cross River State.

"We are well positioned to export products as easily as we are exporting crude," he says.

Meanwhile, the closure of both Warri and Kaduna for maintenance has been presenting the government, which has 100 per cent ownership of the industry, with more immediate issues. They include shortages of lubricants and fuel, the latter exacerbated by smuggling into neighbouring countries.

At one point the situation was so serious in the north that the Chief of General Staff, Rear Admiral Augustus Aikhomu, ordered the immediate re-opening of the Kaduna refinery, although it later had to close again for further work.

Fuel prices were doubled last year, but the subsequent devaluation of the naira as part of the economic Structural Adjustment Programme has had the effect of reintroducing a heavy subsidy on Nigerian fuels, making them profitable contraband over the borders.

Adulteration of fuels with others more heavily subsidised—for example, diesel with kerosene—has contributed to Nigeria's fuel headache, and the Government was expected to brave public hostility and raise fuel price gradually or even in one fell swoop in the course of 1987.

Victor Mallet

Coal mining

Cash problems increase as output declines

IT IS tea break and nothing stirs on the surface at the Okpara coal mine, 10 km south of Enugu. The spare parts and repair shops resemble a graveyard filled with brokendown, rusting and cannibalised machinery.

"It is a sad sight," remarked Mr Obiora Obichukwu, colliery manager, as we walked along the railway to the entrance of the tunnel leading to the coal-face. On the way we passed a veteran Hunslet locomotive which had been in service since the Second World War.

Okpara employs 360 miners and support staff but now produces only 150 tonnes a day. Mining is entirely manual, Mr Obichukwu explained.

Two mechanised longwall mining systems with a combined capacity of 2,000 tonnes a day, installed by the Polish company Kopex in 1979, have been abandoned.

At the Onyeama mine on the other side of Enugu it is a similar tale of woe regarding failed Polish equipment. Mining officials explain that as a result of poor feasibility studies inappropriate and inferior machinery was installed.

Inadequate power supplies caused frequent breakdowns as well as flooding which ruined the equipment, they added.

Flooding is a major problem at the Okpara and Onyeama mines where an estimated 4m gallons a day has to be pumped out.

The main mine at Onyeama has been flooded for the past nine months and an alternative face has been developed, colliery manager Mr Nelson Agu said.

Production is now 220 tonnes a day from 110 miners. Slow evacuation using the continuous or single cable system is another problem limiting production.

Back at the Nigerian Coal Corporation's ancient colonial hadquarters in Enugu the general manager Mr Festus Ogwu put the problem bluntly. We must produce more coal in order to be profitable.

Output fell from 323,001 tonnes in 1972-73 to 52,730 tonnes in 1983 before recovering to 150,000 tonnes in 1986.

NCC's financial problems grew steadily as output declined. The Government's decision last year to slash subsidies to state enterprises made matters critical.

Miners nearly came out on strike last November because they had not been paid for nine months. However funds have since been obtained from Lagos and salaries are now up to date, according to Mr Ugwu.

Although the number of miners has been substantially cut from 8,304 in 1959 to 1,710 in 1985 the coal industry remains one of the most important income generators in the Enugwu region. But after many dark years of neglect and decline the Nigerian coal industry faces the prospect of a brighter future.

President Babangida in this year's budget speech promised

A new lease of life for the coal industry was promised in this year's budget, but how this will be worked out is not yet clear

a new lease of life for coal so that its export potential could be more fully explored.

It is not yet clear how this statement of intent will be translated into action. The federal budget contains a N52m allocation for mining while N25m is set aside for coal rehabilitation under special projects.

Observers point out that this does not match up to NCC's N861m development and expansion programme.

This covers the expansion of the Enugu underground mines in Anambra state as well as the Okaba and Owukpa opencast mines and development of a new mine at Ogbouoga in Benue state. Ten mechanised longwall faces are planned.

The aim is a massive increase in output to 3m tonnes by 1990 of which about two-thirds would be for export, according to Mr Ugwu.

Some 300,000 tonnes would be destined for the Ajaokuta steel plants for blending with imported coking coal.

In the longer term, demand from the National Electric Power Authority is set to rise sharply to over 4m tonnes a year when three planned coal-based power plants are built.

The first of these could be the 240 MW Oji river power plant which would use some 600,000 t/yr of coal.

A memorandum of understanding was signed by the British and Nigerian Governments in 1982 concerning a smaller 120 MW plant and the associated development of Enugu mines.

A British consortium with Costain for civil works, NEI for plant and Babcock for mining was lined up but the financing was never completed.

"We are keen to work with the British again. They developed the mines and the engineers were trained in Britain," said Mr Ugwu, a former trainee at the National Coal Board's mining college in Wigan.

Anxious to avoid a repetition of the Polish experience, the Nigerian Coal Corporation would like to set up joint ventures in which British businesses would help to produce coal and to operate and maintain equipment.

Secondly, there are plans for a 600 MW power station at Makurdi which would require about 1.5m tonnes a year of coal, necessitating the expansion of the Okaba and Owukpa opencast mines and development of a new mine at Ogboyaga.

Thirdly, a 1,200 MW lignite-based power station is envisaged at Onitsha. It would require an estimated 2m t/yr of lignite.

Proven reserves at Asaba and other locations in Southern Nigeria total 250m tonnes. Nigerian lignite is said to be particularly suited for power generation having a high calorific value.

In addition, the Nigerian Coal Corporation is studying the construction of a coal carbonisation plant which would initially use the important reserves of the Okaba opencast mine in Benue State.

As for export prospects, Mr Ugwu says he has received inquiries for up to 5m t/yr.

NMC exported 30,000 tonnes of coal to Italy in 1986 and has received inquiries for much larger quantities for steam power generation. Brazil and the Netherlands are among other countries to express interest.

However, observers point out that the power station projects have already been on the drawing board for several years. There is still no hard evidence of the large infusion of funds needed to rehabilitate and expand NCC's activities, they point out.

Peter Blackburn

Agriculture

Best boost in years for small farmers

TWO MAJOR ELEMENTS in President Babangida's radical economic reforms are providing the most fundamental boost to agriculture that Nigeria's millions of small farmers have seen in years.

First, there is the effective devaluation of the naira through the weekly foreign exchange auction and second, the abolition last year of six moribund and often corrupt commodity boards that had a monopoly on purchasing and virtually strangled production of many crops.

After years of official neglect and half-hearted slogan policies, farmers are now receiving more realistic prices for their output, especially for cash crops and this has boosted cocoa in particular. What is more, they are receiving the payments at the time of sale rather than six months or more late.

Cocoa farmers, for instance, received up to N6,000 a tonne in the early part of the 1986-87 season against between N1,000 and N1,600 a tonne paid by the Cocoa Board. The prices are attractive enough even to beat the time-honoured rewards of smuggling the crops into neighbouring countries.

The six boards covered cocoa, coffee, palm produce, rubber, cotton, groundnuts and grains. First set up in 1977, they were abolished with effect from January 1, leaving the bulk of the 6,000 workers redundant—although some have found jobs with the private traders who are now starting to take over most of the boards' functions.

Selling off the boards' assets may be a protracted business, for accounts have been badly managed and records are inadequate. According to Government estimates, the boards are indebted to the Central Bank of Nigeria for N1bn—most of it Government advances to cover purchases from the farmers.

Although the abolition has been generally welcomed, there are nevertheless some problems that have yet to be resolved—cotton in the north, for example, going uncollected because private traders either lack sufficient capital to cover purchases or are short of transport.

Agriculture has a long way to go yet, though. Once the most important sector in the Nigerian economy, accounting for more than half of GDP and more than 75 per cent of export earnings, its decline has been due to a succession of factors—the disruption caused by the Biafran civil war, drought, crop and livestock diseases and poor infrastructure, notably inadequate feeder roads linking farmers to their markets.

The overwhelming cause, however, was the impact of the oil boom, particularly in 1973-74 when international oil prices quadrupled. The exodus of labour from the country to the bright lights of Lagos (the capital's population almost doubled) was accompanied by the consequences of an overvalued naira which made food imports (such as wheat and rice) cheap, and locally grown staples uncompetitive.

As a result, agricultural exports now account for only 2.5 per cent of total exports and imports of food and agricultural raw materials, though reduced by bans on imports of rice, vegetable oils and wheat, still cost more than N1bn last year.

Despite inducements to agricultural investment in the 1986 budget, the presence throughout the country of World Bank supported agricultural development projects (ADPs) and the austerity-induced drift back to the countryside, agriculture grew by only 2.2 per cent last year. That growth had probably to do with good rains as much as anything else. With the population growing at an estimated annual rate of 3.5 per cent, agriculture will have to perform much better if Nigeria's food requirements are to be met from domestic production by the end of the century.

While the Babangida administration is displaying a more serious commitment to the sector than previous governments, this year's capital budget for agriculture and rural development has fallen from N894.3m in 1986 (15 per cent of the total) to N765m (12.6 per cent) this year. The 1987 allocation includes N400m, mostly derived from savings on petroleum subsidies, for the newly created Directorate of Food, Roads and Rural Infrastructure which is responsible for building feeder roads, and the provision of rural electrification and health services in the countryside where the vast majority of Nigerians still live.

The Directorate has already constructed 11,000 km of feeder roads but there are fears that it may duplicate efforts already under way by state agencies.

In Bauchi State, for example, officials working in the agricultural sector say that there are seven agricultural organisations performing similar tasks in the state but communicating rarely, if ever, with each other.

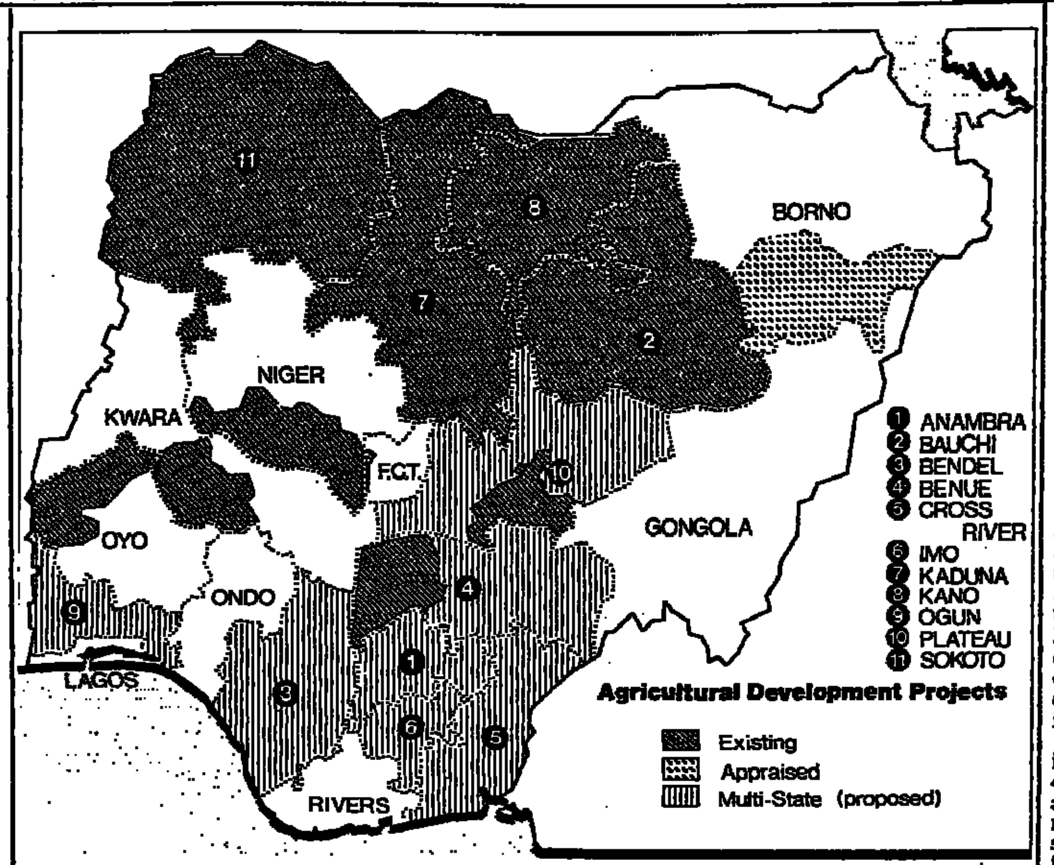
Aside from the big push in rural development, the 1987 budget includes the provision of 500,000 tonnes of long-needed storage capacity. There are reports that up to 40 per cent of a particular crop can be lost for want of proper storage. The cost of adequate facilities, however, is high, and given the government's foreign exchange constraints it may be hard pressed to provide the estimated $300m that construction of this extra capacity would take.

The government will also have to devote more resources to the rehabilitation of the rundown extension services which, despite the omnipresent World Bank ADPs, are failing to cope with farmers' needs. Extension agents are low paid, ill-trained and poorly motivated.

Soil tests are hardly ever carried out, there is little guidance to halt widespread erosion and little effort to introduce new training techniques of benefit to farmers. The distribution of new varieties of seeds has been rather perfunctory, despite the fact that the International Institute of Tropical Agriculture at Ibadan has made large strides in developing disease resistant seeds.

Most agriculturalists accept that the small-scale peasant farmer will remain the backbone of the sector for the foreseeable future. Large-scale farming has not proved to be the breakthrough that many had expected. With a couple of notable exceptions, Federal Government pressure on companies to invest in big ventures has been a failure—largely because of a lack of expertise, problems in acquiring land under the country's complex tenure system, and difficulties in providing the plant and equipment at a time foreign exchange is severely limited.

Stephanie Gray



Investing in agriculture: a company case study

Good corporate citizens

LARGER Nigerian companies have come under considerable arm-twisting from government in an attempt to get them involved in the country's efforts to boost agricultural production.

It has been made clear that applications for import licences—which until last year's reforms were a critical part of the tortuous foreign exchange allocation system—would be treated more favourably if the company concerned could prove that they had invested in agriculture.

Some companies have resisted, but most have succumbed, despite, in many cases, having little or no expertise in the sector. Many of the projects have been ill-conceived and set up on the cheap, almost purely as a public relations exercise, and have ended as a result in failure.

One exception has been the United Africa Company's (UAC) hefty investment in the Marquis Farms integrated maize, animal feed and pig production unit at Lanlate in Oyo State.

Chief Ernest Skonekan, the UAC chairman, is reluctant to divulge just how big the investment was but admits it amounted to many millions of Naira.

The reason the price was so high was that all the infrastructure was already in place. The ultra-modern piggery, abattoir, small processing plant and feedmill are on a par with any modern plant in Europe.

Chief Skonekan points out that UAC had been involved in agriculture before independence and had been "kicked out" when the fashion for nationalisation of multinationals' assets was at its height.

He maintains, however, that his company, at least, had not been bullied back into the sector. "We were being good corporate citizens. We had already decided to buy Marquis Farms. The only pressure from the Federal Government was to speed up our discussions."

UAC bought the assets, including 700 hectares of arable land, towards the end of 1985. The farm is producing about 3,000 pigs a year at present out of a capacity of 4,500 a year. Four hundred hectares is under maize at the moment, rising to 500 to 600 next year.

The meat, prime cuts and processed products are sold through its Food Division and Kingsway Stores.

While the products do not have the same popularity as beef or poultry—about half the country's population is Moslem—they compete on a price basis with other meats. Provided the company can achieve two maize crops a year, it estimates that Marquis Farms should start to show a profit by the end of 1988.

The forecast might be somewhat optimistic, for the company does not plan to invest in irrigation, leaving the maize crop dependent on good rains.

The company's commitment to agriculture does not end with pork production. It has a further 5,000 hectares of land near Kidanden in Kaduna state, on which it has started growing about 500 hectares of maize.

In conjunction with Lever Bros, UAC is discussing with the Government of Cross Rivers State the possibility of jointly investing N50m in an oilpalm plantation.

If that goes ahead, UAC will be back in the same businesses that it was involved in more than 20 years ago.

Stephanie Gray

Fertiliser Supplies

New plant nears completion

TOWERING ABOVE the mangrove swamps in the Niger delta stand a vast complex of shiny steel pipes, cylinders and tanks—the country's first world class fertiliser complex which is scheduled to come on stream in April.

The N727m National Fertiliser Corporation of Nigeria (Nafcon) plant at Onne, about 30km from Port Harcourt, is one of the few major projects to be completed in recent years. It should initially produce enough fertiliser to satisfy entirely local demand and could save up to $100m a year of imports.

When operating at full capacity the plant will produce 413,000 tonnes a year of urea and 300,000 tonnes a year of nitrogen, phosphorus and potassium (NPK) compound fertiliser.

The plant was built by a consortium of five American and Japanese companies led by M.W. Kellog and including Jacobs Engineering, Kawasaki Heavy Industries, Nissho Iwai and Marubeni.

The consortium's engineering procurement and construction contract was 85 per cent financed by the US and Japanese export-import banks. A syndicate of local banks led by First City merchant bank also provided a N70m loan to help finance the project.

Few workmen were to be seen on the site at the end of January though traffic safety signs erected by a South Korean subcontractor still dotted the road junctions.

"It was hectic in the peak period with nearly 2,800 workers onsite but the rush is over. We are now waiting for the gas pipeline to be completed," Nafcon's American managing director Mr Donald McCurdie said.

There has been a slight delay in completing the pipeline but gas is due to start flowing towards the end of February and the plant should come onstream in April.

Gas is the main raw material for producing ammonia—the basic building bloc for urea fertiliser.

This is one reason why the huge project was given priority during a period of financial austerity. the fertiliser plant will require some 45m standard cubic feet a day—a fraction of the enormous quantities of natural gas currently being flared wastefully.

The gas will be delivered by the Nigerian National Petroleum Corporation via a purpose-built 14km gas pipeline from Shell's Alakiri gasfield where reserves are large enough to run the Onne plant for more than 30 years.

The gas price still has to be fixed but Nafcon is looking for 60 kobo per million BTU or about half the rate paid by the National Electric Power Authority (NEPA).

"We are using the gas mainly as a raw material not as a fuel," Mr McCurdie emphasised.

Whatever the final price Nafcon will almost certainly obtain much cheaper supplies than American or European producers and this will help to make it competitive in the urea market.

Another reason why the Onne project was given priority is that it contributes towards the objective of national food self-sufficiency.

Local production and the creation of a commercially managed marketing and distribution system should help to ensure timely deliveries to farmers encouraging them to use more fertilisers and raising food crop yields.

"In the past the correct fertilisers often failed to be delivered at the right time and place and were therefore of little value." Nafcon's head of corporate planning and analysis, Mr Chijioke Waboso, said.

Farmers often concluded it was safer to do without fertilisers than to rely on the slow and bureaucratic government distribution system.

Although the agriculture ministry will continue to import and distribute some 850,000 tonnes of fertiliser in 1987, it plans to hand over later to a new private company.

Apparently the government is unwilling to risk any breakdown in supplies due to possible start-up delays or problems at Onne.

Nafcon's immediate goal is to maximise sales of urea. It is a high analysis product based on local raw materials and can easily be applied by small farmers Mr McCurdie said. High analysis "means fertiliser rich in nutrient so that less tonnage has to be applied to obtain the

Continued on next Page

cocoa good

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Cash crops

Cocoa producers' good fortune

COCOA FARMERS in Nigeria have yet to come to terms completely with their recent good fortune: prices paid for their 1986/87 crop were about four times those for the previous season.

After the abolition last June of the Nigerian Cocoa Board, the traditional buyer, farmers started receiving N5,000 to N6,000 a tonne from private export buyers a big jump on the N1,000 — N1,600 a tonne paid previously, and on prices paid for cocoa smuggled into neighbouring Benin.

Prices have since fallen back to between N3,500 and N4,000 but devaluation of the naira last September has ensured the incentive to continue in production remains good.

At the beginning of the season, however, the vacuum left by the sudden demise of the Cocoa Board had led to chaotic conditions in the industry. While widely regarded as inefficient, the board at least provided a reasonable system of quality control, and collection facilities as well as organising the supply of inputs, such as fertilisers and pesticides.

Lack of proper inspection or in some cases fraud led to very poor quality in a crop that has commanded a £50 a tonne premium on the London market (along with Ghanaian cocoa) because its sun-dried qualities suit the British palate.

The new exporters, having paid N5,000 to N6,000 a tonne for ungraded cocoa, expected to receive the going rate of £1,500 a tonne in London but quality was so poor that some of the crop fetched only £500 a tonne, and many Nigerians lost large sums of money.

Stones and sand were found in some bags that reached London and many cargoes were badly damaged by mould. Some farmers sent improperly fermented and dried cocoa, or even cocoa still in the pod to collection centres in moisture-inducing plastic bags.

One inspection agent rejected 80 per cent of the cocoa he looked at but suspects most of it went out anyway.

Traders in London, anticipating the confusion that followed the abolition of all six commodity boards, had found alternative supplies.

In recent months, however, quality has improved markedly and most shipments now qualify again for the £50 premium.

Nevertheless, Nigeria's total export for this year are likely to reach only 80,000 tonnes - the lowest for 40 years. Part of the shortfall is due to an increase in the processing of beans into cocoa butter and part to the early harvesting last year of the new season's crop because of the threat of black pod disease.

The tonnage is much below the mid-1970s when Nigeria was one of Africa's largest producers. The fall in production like that in all export crops, is largely the result of the oil boom which drew thousands of farmers into the towns, many of them to work in the construction industry.

Cocoa still accounts however, for 40 per cent of Nigeria's non-oil exports and is grown mostly in the forest zones of Orgun, Oyo and Ondo states.

Statistics on cocoa and other cash crops are difficult to obtain, and a World Bank team arrived early last month to conduct a study of export crops.

Most of the country's cocoa trees are believed however to be more than 20 years old and there have been few signs yet that higher prices have persuaded farmers to replant, most of whom have still to be convinced that their windfall will be repeated.

Many are showing more interest in planting groundnuts because of improved world prices brought about by last summer's drought in the American Mid-West.

The end of the Groundnut Board's monopoly on purchases, coupled with devaluation, and the ban in the middle of last year on imports of vegetable oil, are expected to promote a switch into production of peanut, palm and palm kernel oil for their domestic and export markets.

The ban has so far, however, proved largely ineffective. The palm oil industry still suffers from the damage to the mills during the Biafran civil war, and imports are expected to remain significant for the rest of the 1980s. Exports of palm oil from a country which was once the world's leading supplier is still very much a long term prospect.

Cotton is another export crop to which renewed attention is being given. Prices paid to farmers are expected to double next year but the country's estimated 100 textile companies are experiencing, like many other concerns, a liquidity crisis which is preventing them from buying up all the available cotton.

In Sokoto state, large quantities of harvested cotton are reported to be lying waste on the land and farmers are believed to be holding on in the hope of prices much higher than the N800 a tonne being offered at present.

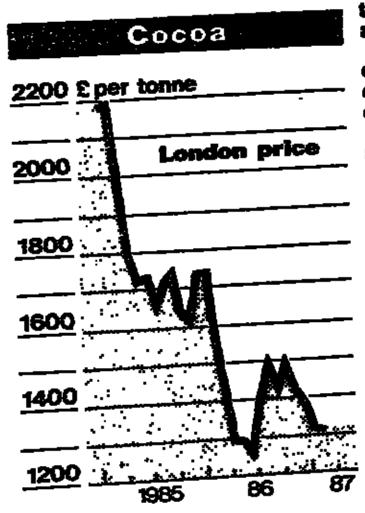
Nigeria having once been an exporter of cotton, now produces only 40 per cent of its own domestic requirements.

Rubber presents a similar story. Once Africa's largest producer, the country now produces only 40,000 tonnes a year and exports less than half that.

High labour costs make local prices twice as high as the international price, and exports have to be heavily subsidised.

Local producers have pleaded with the Government to raise tariffs on imported tyres to provide them with some protection and this may happen once the review of last year's hastily imposed tariff schedule is completed by mid 1987.

Stephanie Gray



While thousands of small farmers still rely on the "chadouf" irrigation system—the ancient method of using a bucket at one end of a weighted pole—small pumps are helping to transform production elsewhere.

Rural development

Hefty World Bank backing

MR JUJU BARAZA, proud possessor of four wives and 24 children, is clearly one of the most successful farmers in the tiny village of Dass in northern Bauchi state.

He was the first man in the village to instal a small suction pump, 14 years ago, to irrigate his 2.5 hectares of lowland farm. Previously, he had relied on *chadouf* irrigation—the ancient method of using a bucket at one end of a weighted pole.

Mr Baraza's yearly income, from a much smaller plot, used to be only N600. Last year, his produce—vegetables from the fadama or lowland irrigated plot and maize millet and sorghum from rainfed irrigation—earned him N5000 and this year, he reckons on making N12,000.

The extra income has allowed him to put a corrugated iron roof on his house, marry off two of his sons, buy a team of work bulls, a plough and two new pumps. The N12,000 he will earn this year will enable him to send some of his children to school. Nor need this mean a shortage of labour, he says, because there are more children coming up.

How much of his success is due to the efforts of the $350m Bauchi State Agricultural Development Programme (BSADP), is difficult to gauge, as even the project officers will admit.

Many of the state's farmers, almost all of whom are smallholders, would have introduced small pumps, capable of irrigating up to a hectare and of tiding them through the dry season even without the aid of the World Bank assisted BSADP.

Established in 1981, the project aims to raise living standards for 425,000 farming families (95 per cent of the state's rural population). Similar programmes now exist in virtually all of Nigeria's 19 states. They have hefty World Bank backing and are intended to build on the strengths of traditional farming systems through provision of appropriate technology.

The emphasis is on extension teaching of improved farming methods. Reasonably priced inputs, development of the physical infrastructure and improved water supply also play their part.

It is in small-scale fadama irrigation that the greatest strides appear to have been made. When the project was set up only 1,000 hectares in Bauchi were irrigated in the dry season but the figure could now be as high as 10,000 hectares.

Project officials estimate that overall production has increased by an average of 5 per cent a year, even taking into account the 38 per cent drop in 1983 when the state suffered its worst drought in living memory. Before 1981, the annual increase was 1 to 1.5 per cent.

Much of the extra production has been due to the easy availability of inputs supplied through service centres not more than 7-10 km from every farm by Bauchi State Agricultural Supplies, the project's commercial arm, at a small profit.

The most spectacular rise has been in the production of maize. While the staff admit that changes in output of other crops have been mostly due to farmers' own response to climatic and marketing conditions, they take the credit for a fourfold increase in maize since 1982.

Funded by the World Bank (49 per cent), the federal government (21 per cent), and state government (30 per cent), the project has also been responsible for the construction of 1,205 boreholes, 95 earth dams and 1,200 km of roads.

For Mr Baraza and some of his neighbours, the new roads have meant that instead of selling his pepper harvest at farmgate prices of N28 a bag, he can now hire a truck and drive two days to Lagos where he can get N70 a bag. At such a price, he can even afford the plane fare back to Jos, the nearest airport 200 km away in Plateau State.

Marketing, however, is considered to be a major constraint in the state. Some blame the abolition of the commodity boards which, though widely held to be inefficient, have so far not been replaced.

Critics complain that too much of the available money has been spent on the high cost of staff—there are 2,600 employed—particularly the expatriates, and on buildings.

There have been even stronger complaints over the government decree last year that BSADP should be taken over by a new body, the Bauchi State Integrated Rural Development Authority. These new authorities have been set up all over the country to promote rural development but ADP officials claim they are merely a means of employing the "deadwood" from defunct parastatals. They also argue that with the exception of electrification, they are carrying out exactly the same work as the ADPs. Altogether, they argue, there are about seven official bodies involved in agriculture between which there is little or no communication or liaison.

Similar criticisms of state or federal interference have come from the commercial arm, BASAC, where senior officials complain that the organisation is in an unfortunate limbo being neither fully commercial nor fully a state servicing system.

Stephanie Gray

Major new plant

Continued from previous Page

same beneficial result."Nafcon must sell at world prices. It can't compete with subsidised product" Mr McCurdie added.

The government, however, seems set to continue subsidising fertilisers in order to ensure that they remain within financial reach of the country's predominantly peasant farmers.

Fertiliser imports this year will be financed at the higher first tier rate thus implying a continuation of subsidies despite World bank efforts to phase them out. None the less the subsidy level has progressively been reduced from 75 per cent in 1984 to an estimated 25 per cent in 1987.

"It would be suicidal to abruptly end fertiliser subsidies. They touch the stomach." one Nigerian official said.

Although demand has increased sharply during the past two decades rising to 850,000 tonnes in 1985, Nigerian farmers still use comparatively little fertilisers.

Only 7 kg of nutrient per hectare is applied in Nigeria whereas Ivorean farmers use nearly double and Kenyan almost five times as much.

If Nigeria matched Kenyan fertiliser consumption then imports would rise to some 5 million tonnes a year.

While Nafcon appears to be competitive in the urea market prospects for its NPK output are more problematical. This is because of the need to import phosphoric acid and potash as raw materials.

Nafcon is likely to require some 120,000 tonnes/yr of phosphoric acid which could be imported from a new Senegalese plant in which the Nigerian government is a shareholder. About 100,000 tonnes/yr of potash will also be needed and could be supplied from Canada, France, Eastern Europe and Jordan.

The phosphoric acid and potash will be brought up the Bonny river and then seven kms along the Okrika creek. An eight metre deep channel and a 250 metre turning basin have been dredged to allow 12,000 tonne ships to discharge directly at Onne quay.

Some observers wonder whether Nafcon will operate more successfully than its forerunner, a 100,000 tonne/yr single superphosphate plant built by the Japenese in the early 1970's. The plant located in Kaduna produced only 25,000 tonnes of SSP in 1984 and has never operated at more than 50 per cent capacity.

Nafcon officials point out that Onne is more conveniently located for imports of raw matterials and local gas supplies.

Secondly, Onne should enjoy continuous production as it has independent power and water supplies.It has two 25 MW gas turbine generator sets and five tube wells providing 800 cubic metres an hour of water.

Thirdly the main contractor, M.W. Kellogg has signed a joint venture agreement with the Federal Government by which it has taken a dlrs 42 million equity stake in Nafcon and has provided a management team which will operate until four years after provisional acceptance of the plant.

Kellogg may then start to sell progressively its equity or the contract could be extended.

Peter Blackburn

Industrial Policy

Deep concern over tariff strategy

THE MOST contentious aspect of the structural adjustment programme—certainly among businessmen and bankers—is Nigeria's industrial policy. Most important of all is the deep-seated concern of industrialists that interim tariff, based on World Bank effective protection criteria, fails to provide the country's fledgling industrial sector with the necessary degree of protection.

In three of the past four years manufacturing production has declined and output last year was some 30 per cent below 1982 levels. Capacity utilisation figures vary widely from sector to sector and from company to company but most estimates put capacity utilisation at no more than 30 per cent to 35 per cent.

Many industrialists expect the position to deteriorate further in 1987 unless the Government rethinks the interim tariff introduced last September which significantly reduced the level of protection for many industries.

The logic underlying the tariff strategy was that the steep depreciation of the naira by substantially increasing the cost of imported finished goods, would provide sufficient protection for local manufacturers. This is the World Bank's famous "compensating devaluation" approach whereby there is a trade-off between tariff protection and exchange rates. As a country's exchange rate falls, so it needs less protection.

The Manufacturers Association of Nigeria (MAN) says that while tariff reductions on raw materials and capital goods will help manufacturing industry, the lower tariff on finished goods is having a very serious effect.

Examples of this include a reduction in the tariff duty on imported tyres from 50 per cent last September to only 5 per cent in January 1987, while for imported motor cars tariffs have been slashed, in one case, from 200 per cent to 50 per cent and in another from 70 per cent to 40 per cent.

Because Nigerian industry is heavily import-dependent—it is estimated that about 60 per cent of raw materials used in manufacturing are imported—the naira depreciation has substantially increased raw material costs though this has been partially offset by reduced tariffs.

But manufacturing industry is also a high-cost sector in Nigeria because firms have to provide their own standby electricity generators, their own boreholes for water supplies and their own communications—a reflection of inadequate basic infrastructure.

Given this combination of high domestic cost structures and increased raw material prices, exacerbated by sharply higher interest rates, the credit crunch and declining domestic demand, Nigerian manufacturers are in no fit state to fight off imported competition from Korea, Hong Kong and Taiwan.

As MAN puts it: "The high start-up and operating cost in Nigeria already tilts the scale of competition in favour of imported products from the highly-industrialised and low-cost producing countries."

There is just no way, it adds, that Nigerian industry can survive in the face of the new tariff. MAN says a fundamental review—already promised by the Government—is needed in which the duty on imported raw materials should be further reduced while excise duties on locally-made goods should also be cut.

It would be unrealistic to expect industrialists to accept the need for the rigorous restructuring of manufacturing industry given their substantial investment and commitment, but a key theme in the structural adjustment programme is that of accelerating the use of domestic resources and raw materials rather than imported ones. This puts the "average" Nigerian industry with its 60 per cent import content in the firing line.

One Nigerian policymaker argues that any company that is more than 50 per cent reliant on imported inputs should go to the wall, adding that because manufacturing industry accounts for only 8 per cent of GDP, such restructuring need not have far-reaching consequences. But this is hardly realistic in a country where some 30 per cent of the labour force employed in the formal economy is engaged in manufacturing.

Already industry has endured a savage shake-out. MAN estimates that 200,000 workers—about 40 per cent of the industrial labour force—have been laid off in the past three years, production is lower today than five years ago and capacity utilisation rates represent massive under-use of valuable investment.

But the shake-out still has some way to go. Over the next few months Government officials will be revising the tariff and many of the industrialists' complaints are likely to be assuaged to varying degrees, but some very thorny problems will remain.

A World Bank study in the early 1980s showed that effective protection in some branches of Nigerian industry was both high and increasing. The advent of import controls from 1982 onwards intensified this protection resulting in a cost-permissive industrial environment.

The report showed that protection was at its worst (216 per cent) in the assembly industries while consumer goods industries processing imported materials had an effective protection rate of close to 150 per cent.

Ironically, too, industries processing domestic raw materials were shown to have much lower rates of effective protection (40 per cent) than those processing imported materials (67 per cent), while export-oriented industries were given negative protection of some 15 per cent.

The same study showed that a quarter of all the industries studied had negative protection rates indicating very powerful disincentives to invest. It showed too—not surprisingly—a clear cut correlation between the levels of protection and the rate of profitability. Thus, profits were highest in the assembly industries where protection was greatest.

It is clear from this—now outdated—study that there was a need for radical tariff surgery, though this is an exceptionally difficult task given the "moving target" nature of the problem arising from the steep depreciation of the naira. It is extremely difficult to identify an appropriate tariff structure before the exchange rate stabilises.

However, assuming that the naira does stabilise in the second quarter of the year with the merging of the first and second tier exchange markets, it will be much easier for the Government to come up with a new tariff regime.

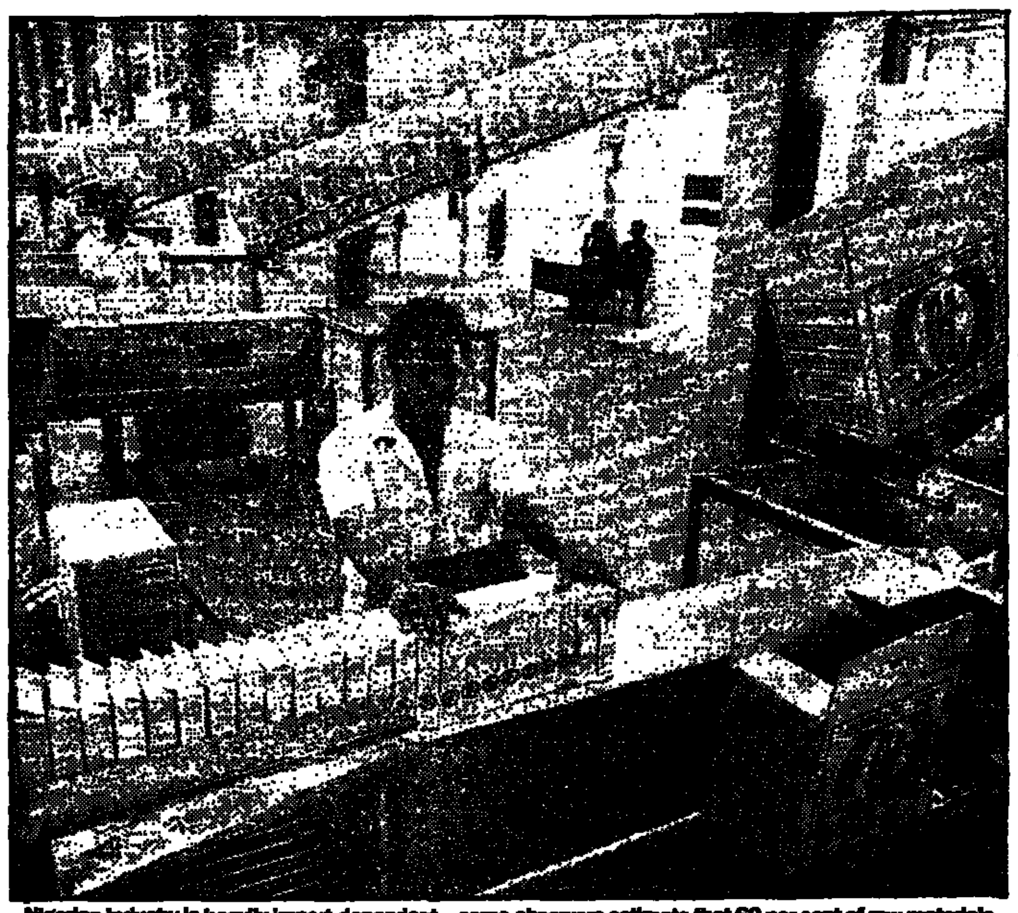
Whether the revised tariff, expected to be announced by mid-year, will be any more palatable than the interim arrangement remains to be seen.

The most likely outcome is a return to increased protection for some of the industries that have been hard hit by the 1986 reforms, though this may well be only a temporary state of affairs.

In the medium term, rationalisation in favour of export-oriented industries and those using local raw materials is inevitable, though the pill may be sugared by a phased reduction in tariffs rather than major immediate changes.

In a nutshell, structural adjustment implies industrial restructuring some of which will undoubtedly turn out to be painful especially for assembly industries and those with very high import content in their final product.

Tony Hawkins



Nigerian industry is heavily import-dependent—some observers estimate that 60 per cent of raw materials used in the manufacturing sector are imported. Above: part of the packing line at a detergent factory at Ikorodu.

Privatisation

Far-reaching plans

NIGERIAN MINISTERS and senior officals insist that the Babangida administration is determined to press ahead with its ambitious and far-reaching privatisation strategy despite formidable political, economic and technical obstacles.

Privatisation is, in fact, an integral part of the structural adjustment programme which emphasises the need both for reducing unproductive state-owned investments and improving public sector efficiency.

Indeed, the strategy pre-dates the economic reform programme in that as early as March last year six enterprises—mainly in agriculture—were put up for sale.

At the same time, reflecting the Military Government's impatience with badly-managed state-run monopolies, subsidies to the parastatal sector were halved last year while management was warned that grants would continue to be paid only to those enterprises that could produce current audited accounts.

The problem is enormous. At Federal level alone—ignoring the many parastatals owned by state governments—there are about 100 state-owned enterprises encompassing all sectors of the economy from oil and communications to flourmilling, brewing and banking. Government investment in the sector is put at N23bn-N8bn of equity and N15bn of loans—to which can be added a further N12bn in the 1985 financial year in grants.

Government's return on this investment is no more than 2 per cent and way below its cost of capital even for concessional loans from multilateral aid institutions. It is estimated that in any year about 40 per cent of the Federal government's non-salary recurrent spending and 30 per cent of its capital investment is devoted to propping up the ailing state-owned sector.

A privatisation blueprint, currently under discussion at top level in Lagos, classifies state enterprises into five categories. One group of parastatals is to be fully privatised which means selling the entire public sector stake to private investors. Enterprises already functioning along commercial lines—banks, breweries and flour mills etc—fit into this category.

A second category that will be partially privatised includes enterprises in which the government will reduce its equity while insisting on the withdrawal of all subsidies, thereby forcing the business to operate on commercial lines and draw any capital it may require from the capital market.

A third category of parastatals is to be fully commercialised which means that the ownership status quo will be maintained but that the enterprise will be allowed to raise its own capital autonomously and to operate on business lines. Partial commercialisation will apply to a fourth group that will continue to be eligible for government financial support, always providing that proper accounting records are maintained.

Finally, a fifth category of parastatals will be maintained as public institutions.

It is clear that privatisation is going to be a protracted exercise, but a start has been made both by putting shares in already-viable state investments on the market and—more importantly—promising new policy guidelines that will reduce government intervention in the day-to-day operations of parastatals and abolish state-run monopolies. Agricultural marketing boards are being privatised and it is widely felt that private sector operators will substantially improve both the services and the incentives to small-scale farmers.

> **No-one is under-estimating the enormity of the privatisation challenge, but the Government is determined to press ahead.**

No-one is under-estimating the enormity of the privatisation challenge. At one level, there is deep-seated political opposition to privatisation reflecting the fears of people in the east and the north that the Lagos-based commercial and financial interests will take control of national assets at bargain-basement prices.

Clearly it will be necessary to ensure that shares in privatised enterprises are allocated on an equitable regional basis. Securing agreement on this will be no easy task.

A particularly formidible task will be that of documentation. Many—indeed, most—parastatals—are literally years behind in the compilation and publication of audited accounts. One industrialist tells of his experience in seeking to buy equipment from a parastatal owned by a state government only to discover that no asset valuations were available nor could he obtain any idea of the degree of indebtedness.

Perhaps more worrying still is that even when accounts are produced, the track record they reveal is likely to be such as to deter potential investors. The belief that it will be possible to sell non-voting equity in these—and other—industrial concerns to foreign investors is surely unrealistic given the dismal profit performance and the far-reaching evidence of managerial incompetence.

Furthermore, the political implications of selling even non-voting equity to foreigners or multinational companies are likely to deflect the Adiminstration from such a programme.

If this is the case, then where will the buyers come from?

The amount of capital required—N8bn for equity alone—is well outside the capacity of the domestic capital market. Clearly for some of the smaller commercial ventures—banks, breweries and flour mills—privatisation could turn out to be both straightforward and successful but for the heavyweights with huge assets and substantial losses in transport and communications, the situation is very different.

Obviously, it is vital that the programme should get off on a sound footing since an early disaster would have long-standing adverse consequences.

To that extent, the decision to start selling off already commercialised ventures in banking or brewing is very sensible. So also is the policy decision to enforce realistic pricing policies, business-oriented management practices and commercial cost and accounting standards in the parastatals. Such moves are an essential pre-requisite to privatisation.

The decision to allow parastatals to raise capital on their own account is getting a mixed reception from bankers. While the general principle is supported, there is concern that such a strategy could become a vehicle for increasing public sector borrowing by chanelling it through enterprises in which the state has an equity holding.

Formidible though the obstacles are, it is evident that Nigeria is following many industrialised and developing countries down the road to privatisation hoping thereby to reduce the public sector's financial deficit and improve economic efficency. It is an ambitious strategy and one that is likely to take several years to reach fruition.

Tony Hawkins

Steel

Doubt on final output

"I WOULD like to correct the erroneous impression that the returns from Government investment in steel can be measured in naira and kobo profit now.

"It should be understood that the integrated steel plants have long gestation periods, and benefits to the nation from them take various forms, many of which could not easily be quantified," says Nigeria's Minister for Mines, Power and Steel, Bunu Sheriff Musa.

This is his response to the stock criticism that Nigeria's steel development projects are hopelessly uneconomic and ought to be postponed indefinitely or completely written off.

Steel development in Nigeria has been a political issue from the outset—the siting of the two steel production plants more than 400 km apart owes more to the effectve lobbying by local political interests than it does to considerations of costs or logistics.

The choice of Soviet contractors Tiajpromecksport was seen by some as the consummation of a friendship which started between the two countries during the civil war, although negotiations had started before the conflict began.

With its projected annual steel production capacity of more than 6m tonnes, Nigeria would rank as the biggest steel producer in sub Saharan Africa and one of the biggest in the developing world. But current government thinking casts doubts on how far along the road Nigeria will go with the steel plants.

The West German built direct reduction plant in the Delta region of Bendel State has a potential production capacity of a million tonnes a year, while on its projected completion date of 1989 the Soviet-managed blast furnace plant at Ajaokuta will have an initial capacity of 1.3m tonnes per year.

The original plan provided for the phased increase of the Ajaokuta plant's capacity to 5.3m tonnes a year through the construction of additonal blast furnaces.

But these projections have been called into question under the terms of the Government's two year structural adjustment programme—"the constrained financial situation will require the scaling down and restructuring of the steel development programme. . . .

"In this context, the Government in collaboration with the World Bank will undertake a review study of the steel sub-sector and its major projects very early in the programme period.

"Meanwhile, public expenditure in the sub-sector will be limited and restricted to essential on-going projects until the review study is completed."

Although the World Bank review study team started work at Ajaokuta this month, the Government has publicly committed itself to the extension of the Ajaokuta plant to include a flat steel products mill.

President Babangida's budget speech this year spoke of a flat products mill coming ". . . on stream in the shortest time possible and on the most favourable terms."

Steel Minister Sheriff Musa says he had just set up an inter-ministerial committee to work out how the flat products mill can be integrated into the on-going work at Ajaokuta.

"A pre-investment proposal on the flat products mill has already been prepared by the Ajaokuta Steel Company and a backward integration approach will be adopted to install within a minimum time, flat steel rolling and finishing facilities," Sheriff Musa said.

While it seems fairly certain that Tiajpromesksport will win the main equipment and erection contracts for the flat products mill and accompanying blast furnace, the civil works contractors already based at the site—Germany's Bilinger and Berger, France's Dumez and Fougerolle—say they are awaiting more information on the project which they estimate will take a minimum of three years' construction work.

Work on the other elements of the Ajaokuta project is progressing well, according to the new schedule following the start-up of a countertrade deal between the three civil works contractors and the Nigerian Government last year.

Dumez and Fougerolle are to be paid about $450m from the proceeds of oil liftings by Elf Nigeria, a figure which represents a 50 per cent surcharge on their 1979 costings.

Company spokesmen say the countertrade arrangement covers "the past and the future" and that the pace of work will be dictated by the rate of payment from the oil liftings.

The companies are allowed 33 months of full-time working to complete the civil works contracts for the rolling mills and the blast furnace in Lot 1.

Bilfinger and Berger is operating a similar agreement worth about $300m.

Work on the billet mill and the 300 MW thermal power plant has "virtually been completed and both will be commissioned this year," the general manager at Ajaokuta Steel Company Magaji Inuwa said and added that the fourth rolling mill, the medium section mill, and the blast furnace were due for commissioning in 1988 and 1989 respectively.

Progress has also been made on the ancillary projects with a $250m contract being let to the French engineering company Koch to process locally mined iron ore at Itakpe for use at Ajaokuta.

The work at Itakpe includes building a dam for a water and electricity supply system and a benefication plant which will be able to process 5m tonnes of ore a year.

The other major contract still to let is for construction of the 52 km standard gauge railway, linking the Itakpe ore mines with Ajaokuta.

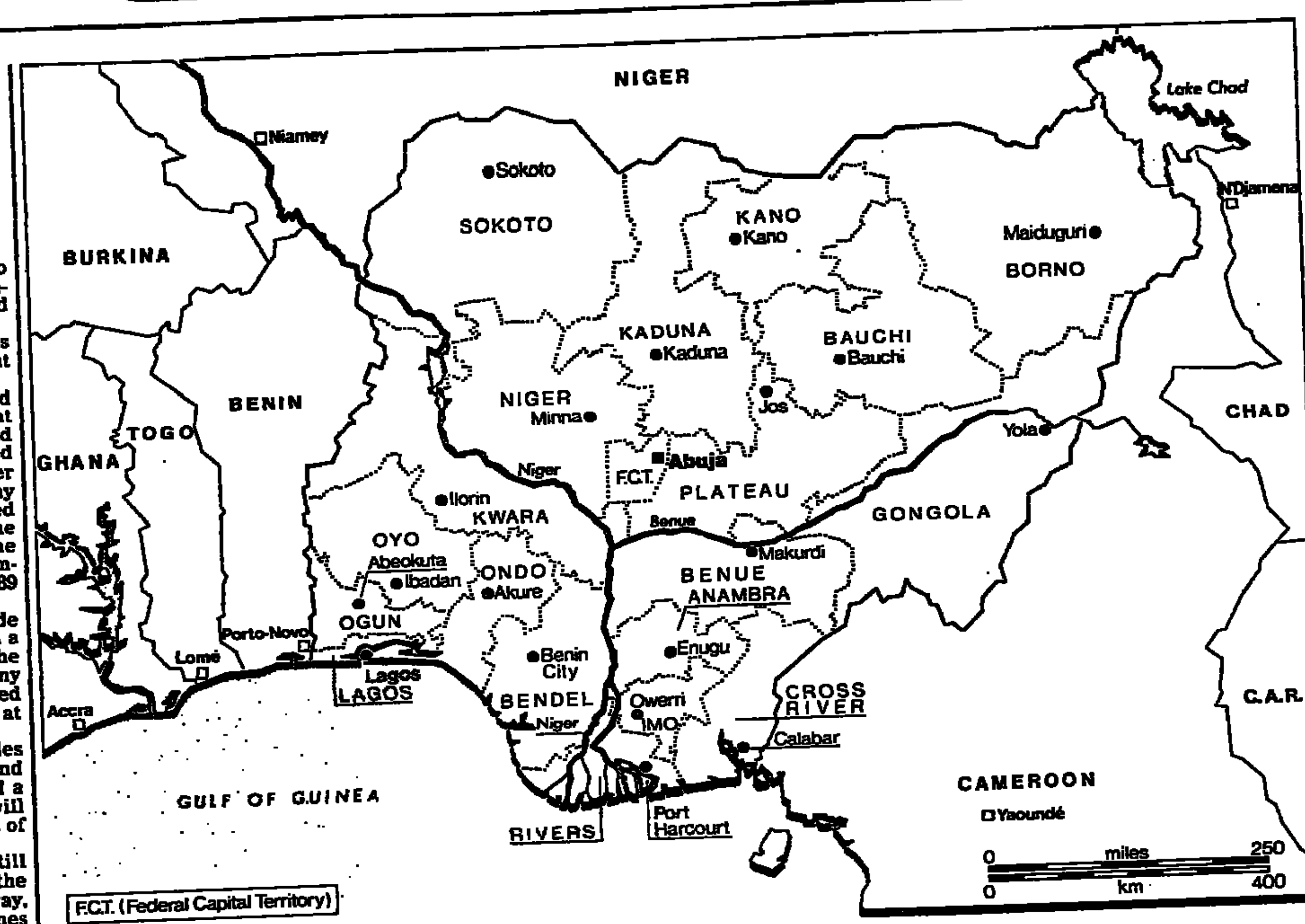
Major civil works contractors Berger, Dumez, Fougerolle and Bouyges are all bidding at around the estimated contract price of naira 320m and Inuwa expects a decision on the contract to be made early this year.

Across the country in Aladja, the Delta Steel plant has completed its fourth year of operation, but is only producing at less than a fifth of its capacity. Last year it operated for five and a half months of the year due to a combination of shortages of imported inputs and continued power cuts.

Despite these constraints, the Delta Steel Company managed to export 2,000 tonnes of direct reduced iron to Spain, 4,000 tonnes to Britain, and 13,000 tonnes to India as part of its export drive to finance its purchases of ore and process equipment.

Delta officials anticipate there will be some progress on the proposed 240 MW gas turbine power plant to be built by a West German consortium of Brown Bouverie and Compagnie, Bilfinger and Berger, and Strabag Bau, given the willingness of the German export credit agency, Hermes, to resume cover, following the conclusion of Nigeria's debt rescheduling negotiations.

Patrick Smith



Industrial relations

Drive to cut unemployment

NIGERIA'S labour unions, faced by rising redundancies among their members, have decided to take a defensive stance, trying to make the best of their circumstances rather than agitating for increased wages and fringe benefits.

Since wages have been frozen by government edict for the past three years, the present system of industrial relations is hardly conducive to free collective bargaining. As the biggest single employer in the country, the government is responsible for the wages and working conditions of almost a third of the estimated 5-6m in Nigeria's formal job sector.

Public sector workers in Nigeria still remember the peremptory way their colleagues in the government hospitals and on the state-owned Nigeria Airways were dealt with by the previous military administration headed by Maj-gen Muhammadu Buhari. Striking doctors had their union banned, their leaders detained and their hospitals surrounded by armoured cars, while all the national airline's pilots who took part in the strike were summarily dismissed without appeal.

While the Babangida government has generally proved more conciliatory the trade unions are under no illusions about its preparedness to get tough if it deems it necessary. Alhaji Ali Chiroma, president of the Nigeria Labour Congress—the central trade union body to which all legitimate junior staff unions must belong—says the main issues confronting his movement are the sharp fall in the real value of Nigerian workers' wages and the fast rising rate of unemployment.

"This structural adjustment programme allows everything else to go to the market and find its level except wages which have been frozen. In any country wages should be allowed to meet the rising costs of living."

Mr Chiroma and the NLC are sharply critical of the cuts in direct taxation in this year's budget which, he says: ". . . again redistributes the country's wealth in favour of the rich" but gave conditional support to the government's attempts to speed up the settlement of industrial disputes. In theory, organised labour and employers are expected to resolve their differences through collective bargaining, but can refer the dispute to the statutory Industrial Arbitration Panel and the National Industrial Court if the talks break down.

In the final event, Ministry of Labour officials have to approve all increases in workers' emoluments resulting from the negotiations which can mean a substantial time elapse between the start of the dispute and its resolution. The government is proposing that "independent conciliators drawn from experienced retired trade unionists and employers" could assist in the mediation process.

"If this new system speeds things up we'll support it," Chiroma says, "but often the problems come when a Ministry of Labour official who may have no knowledge of the background to the dispute tries to intervene." Although over the past three years, since the successive governments' austerity programmes started to bite, there has been a considerable fall off in industrial disputes.

Clearly the Ministry of Labour's preoccupation is with growing unemployment in both urban and rural areas. The Federal Office of Statistics estimates those out of work at 3m which they break down to an unemployment rate of 10 per cent in the urban areas and 4 per cent in the rural areas. This is based on an estimate of Nigeria's working population at about 37m.

NLC officials put the number of unemployed at 5m, basing their figures in part on the decline in their membership due to redundancies, but not taking into account those under-employed workers who live on the margins of the economy. Until there is an accepted national census much of this statistical work is an "educated estimate" as a lecturer in sociology at Lagos University puts it.

But from all accounts the hardest hit are young workers and school leavers who account for more than three quarters of the official number of unemployed. Accordingly the government has launched its war against unemployment with a focus on youth unemployment and the financing of 50,000 apprenticeships in traditional crafts as well as small scale urban based industries.

The government has also started a special public works programme projected to provide employment for 20,000 Nigerians—1,000 from each state and 1,000 from Abuja—on maintenance and construction programmes on roads, buildings, dams and environmental sanitation projects.

All these initiatives were started under the auspices of the Ministry of Labour, Employment and Productivity's National Employment Directorate which started operations last November and was officially launched under the slogan "Jobs for All" by President Ibrahim Babangida this January. The government is to release naira 100m ($25.6m) to the Directorate over the year.

The other thrust of the government's employment strategy is to promote self employment—perhaps not a particularly difficult task when the overwhelming majority of Nigerians can loosely be described as self-employed. Nonetheless the Ministry has embarked on a national publicity campaign urging Nigerians to start their own businesses and is backing a scheme to guarantee N30m of bank loans to "young people scheme to guarantee naira 30m of bank loans to "young people

In particular, the government is concerned about the urban economy for few of the workers in the cities would be willing to return to the rural areas—partly because it would appear an admission of defeat and a waste of the industrial training they have been given and partly in the expectation that things may eventually improve in the cities.

Patrick Smith

Petrochemicals

Logical step forward

DEEP IN the heart of Nigeria's Delta region at Ekpan, in Warri, a group of engineers are completing work on a labyrinthine network of tubular piping which links one set of up-ended cylindrical tanks with a similar set about half a mile away.

This futuristic landscape, ringed by newly-built highways and a burgeoning industrial township is set in the thick mangrove swamps of Nigeria's oil and gas-producing region and represents the first stage in the development of the country's petrochemicals industry.

The first set of tanks store the crude oil and associated gas that will be converted to a range of petrochemical products for Nigeria's plastics and tyre manufacturers. The second set of tanks store the chemical components for the conversion process as well as the byproducts of that process which will be on sale to other users.

At the other end of the plant there is a despatch centre gearing up to handle the first products due to be sent out to commercial users by the end of May.

Understandably, there are great expectations for the country's first petrochemicals plant, although the programme has suffered the same sort of political, financial and personnel problems that have afflicted the country's ill-starred steel programme.

Originally scheduled for completion in 1984, a new timetable was drawn up by the Nigerian National Petroleum Corporation (NNPC) which owns and will operate the plants for the Warri plant and its sister petrochemicals plant in Kaduna.

Technical works contractors Technimont and Civil works contractors Daewoo have long since finished the bulk of the work at the Warri plant, but precommissioning problems like a shortfall in available power supply has meant some last-minute modifications, such as the installation of a gas turbine generator by Lummus Crest.

Meanwhile, at the Kaduna plant in the north of the country, Japan's Chioyoda engineering company are in the final stages of their work on the linear akyl benzene plant, having been awarded the contract only 15 months ago.

Although this diversification into petrochemical production would seem a logical step for a major oil and gas producer like Nigeria, the project has its critics who point to massive petrochemical developments in newly industrialising countries like Mexico, the Philippines and Indonesia, and question whether Nigeria will be able to produce competitively priced petrochemical products for its home market, let alone its export market.

NNPC's sector co-ordinator for petrochemicals Dr Thomas John, refers such sceptics to a detailed study of the marketing potential and cost structure produced by the French consultants Beicip. Their report says that carbon black, produced at the Warri plant, and the linear akyle benzene produced at the Kaduna plant will compete effectively, given the existing cost structure with other producers on the world market.

Despite this apparently favourable climate for petrochemicals production, the

Critics of Nigeria's first petrochemical project question whether its products can be competively priced even for the home market.

project has a poor public image, particularly among Nigeria's manufacturers who are to be the main end-users of the products, which is mainly due to the NNPC's failure to deliver the goods on time.

The NNPC is likely to have an even tougher battle to win hearts and minds for the massive olefins complex which is the second phase of the country's petrochemicals programme. Again, this development is running behind the original schedule following political in-fighting about its siting.

But, in this case, the delay in construction work may have had some unintended benefits, as the global economic recession has meant a fall in demand for petrochemicals plants and such contractors have been compelled to cut their prices sharply.

Nigeria is the only major oil-producing country planning to build an ethylene plant and the contractors bidding for the work—which inclue France's Technip with Technipetrol; the American M. W. Kellogg Company; Japan's Chiyoda Chemical Engineering and Construction Company and C. Itoh & Company; and West Germany's Linde—are all reported to have submitted very competitive bids for the 400,000 tonne a year plant.

Industry sources estimate the contract to be worth around $800m and the bidding companies are also reported to have offered Nigeria fairly flexible financing terms which allow substantial grace periods to fit in with the uncertain state of the country's external finances.

Suggested financing schemes are understood to include the traditional government-backed export guarantee, the countertrading of both oil and the petrochemical products, and recourse financing through which the international contracting company would make a credit agreement with its local affiliate company in Nigeria.

At the same time, Dr John and his team have embarked on a cost-cutting exercise by splitting this second phase development to two sections—the heart of the complex which is the ethylene complex will be scheduled for commissioning in 1991, along with the polyethylene, glycol and propylene plants. But the poly vinyl chloride (suspension PVC) plant will not be installed until 1995 or "sometime thereafter."

And in what Dr John describes as an optimisation exercise—the schedule for the construction of the para-exylene plant—which will be used to supply synthetic fibres, such as polyester, to Nigeria's textile manufacturers—will be brought forward to late 1991.

Apart from helping to clothe Nigeria's 100m or more people, this rescheduling will also provide a use for the 35,000 tonnes of ethylene glycol to be produced every year under the previous plan while the process will be also be able to make use of aromatic by products from the fourth refinery due to come on stream by the end of 1988.

While the NNPC has not released any revised costings for the second phase petrochemicals development, the cost is now thought to be substantially below the $3bn to $4bn originally estimated.

While the second phase project is still likely to be subjected to further scrutiny from project review committees and hawk-eyed financiers, Dr John is convinced it should and must go ahead—"This project is right for us in terms of our resources and our requirements and we must take advantage of the particularly competitive international contracting environment at the moment—if we don't start now, we never shall!"

Patrick Smith

Motor industry

Hit by high costs

"WOULD YOU BUY a second-hand car from this man?" jokes Dr Funsho Ladipo as we make our way through Tolu Adeyemi's "Super Moto Mart" in a Lagos suburb. The object of our attention is billed as a "fairly used luxury saloon," although to our untutored eyes it looks to be a very tatty Peugeot 505 with its offside back wheel almost severed from the axle.

The asking price is naira 20,000 or £3,350 at the current official rate of exchange. Dr Ladipo sighs—he will have to continue his search elsewhere for a reasonably priced car. Like many middle income Nigerians he regards a car as essential—both for the running of his private clinic and to perform the onerous family duties that take up so much of his non-work time.

But the middle range saloons—like the Peugeot 504 or Volgswagen Santana—which are made in Nigeria have more than tripled in price to more than naira 50,000 for new models—up from naira 15,000 just a year ago. Private buyers like Dr Ladipo are either buying second-hand cars of questionable durability or renovating their existing cars.

As the price has shot up, the market for locally assembled vehicles has collapsed.

The vehicle assembly plants—there are eight or more of them if you include some marginal operators—put the blame for the price escalation on the steep devaluation of the naira last year. Assemblers heavily dependent on imported vehicles tied prices to what amounted to a threefold devaluation of the naira.

A major reorganisation of Nigeria's motor industry is now pending as assemblers seek to make commercial sense out of their operations. Currently they are hit both by the higher cost of their imported components and by last year's liberalisation of the trade tariff which sharply reduced the level of protection allowed to local assemblers. Already local trading companies are bringing in Japanese- and Korean-made cars which are substantially undercutting their Nigerian-made equivalents.

The official response to this is straightforward. "Our main aim is to get the price of the vehicles down to affordable levels," Lt-Gen Alani Akinrinade minister of industries says.

"Our criticism of the assembly plants is that they have almost totally neglected the local manufacturing aspect of the agreement reached when they were established. This provides that by this year they should have achieved 75 per cent local content in their operations, but currently none has achieved more than 30 per cent.

"The proliferation of models will have to be cut in favour of one or two successful models; standardisation of parts, to increase the volume and potential of local component production, will have to be addressed, and the rationalisation of production and management operations will have to take place to cut overhead costs and ultimately the cost of the vehicles," Akinrinade says.

So far Akinrinade has not been impressed by the efforts of the local vehicle assemblers to use more local materials. "The assembly plants have not served the nation," he declared earlier this year when visiting a local college whose engineering department had adapted a motorised tricycle for carrying crops in the rural areas. He drew an unfavourable comparison between this form of cheap locally manufactured "appropriate technology" and the sophisticated but heavily import dependent car assembly plants.

Local vehicle assemblers, for their part, point out that too often locally made components are high cost and low quality.

"Primary raw materials for the motor industry are not available in the country for the factories to use," says Pat Utomi, corporate affairs manager for Volkswagen of Nigeria.

"The average car is derived 60 per cent from iron and steel products, 20 per cent from petrochemical products and about 10 per cent from a mixture of other products," he points out.

While the problems of the local motor industry are acute — the plants have the capacity to produce 70,000 commercial vehicles a year whereas 10 years after their establishment the demand is about 7,000. Utomi argues that the investment in the industry should not be written off despite the possible closure of two of the major commercial vehicle plants. "Importing foreign made cars might be marginally cheaper, but we would have to face the loss of jobs and training opportunities, and the loss of a valuable capital base if the government wanted to restart the industry at a later date," Utomi says.

The Unilever associate, United Africa Company, started an assembly plant in Nigeria more than 20 years ago, Utomi points out, for the sound commercial reason that it was cheaper to freight component parts and have them made up locally than to ship fully built up vehicles and waste cargo space. UAC's plant is among the more successful of the assembly plants today owing to its small capacity and low overhead costs. It is the opposite of highly capitalised plants such as the Fiat associate, National Trucks Manufacturers, located in Kano, in the north of the country, or Leyland's trucks and Land Rover plant about 120 km to the north of Lagos — both of which are reported to be in serious trouble with years of accumulated local debts and low productivity and now the virtual collapse of their market.

Some of the other assembly plants are faring better. The Daimler Benz associate, the Anambra Motor Manufacturing Company, has just completed arrangements to source its components from Daimler Benz in Brazil instead of from the company's headquarters in Germany. This switch of suppliers to the lower cost and higher volume plant in Brazil means the Annamco plant will be able to reduce its prices by more than a third, industry sources say. The French trading company SCOA decided to go ahead with the construction of a new assembly plant for Peugeot pick-up trucks at the end of last year, despite the poor short-term market trends.

Likewise, Austria's Steyr and its local associate company are building another assembly plant, specifically to boost their output of military vehicles and equipment—their most lucrative activity in recent years. But the two passenger car assembly plants—Volkswagen and Peugeot—which will be lucky to produce and sell much more than a tenth of their combined production capacity of 100,000 cars this year, are gearing up for a reorganisation of company structure and product lines.

Patrick Smith

Airline faces major restructure

THE INTERVIEW over, Air Commodore Anthony Okpere put on his Air Force cap, smiled quickly at the horde of people in the waiting room outside the office, sprinted to safety along the corridor, down the stairs, into a car and onto the last flight for Kano.

As managing director of crisis-stricken Nigeria Airways he is a man constantly under siege—pressed by the International Air Transport Association (Iata), government officials, bankers, foreign and private airlines, passengers, staff and relatives.

But Air Commodore Okpere seems to be stimulated by the stress and confronts rather than sidesteps the problems. Munching a hurried 6 pm lunch of cake and coffee he admits with a wry smile, "Yes, we are financially in very bad shape: some people might say bankrupt."

He added, "There is no way Nigeria Airways can break even with the present small fleet and surplus staff. A major restructuring *is needed.*" He continued, "We need to raise our revenue base and provide more flights, especially on domestic routes. We must also slash overheads."

Air Commodore Okpere could not give any immediate figures but Nigeria Airways reportedly owes naira 454m ($116.4m) to external and local creditors for payments on the airbus 310s it bought in 1984 as well as for operational and overhead costs.

The introduction of a second-tier foreign exchange market (SFEM) *last September has* greatly added to Nigeria Airways financial difficulties. The cost of aircraft spare parts, maintenance, handling outside Nigeria and other offshore services has shot up following an effective 66 per cent devaluation.

An estimated 61 per cent of the airline's operating costs are in hard currency whereas 90 per cent of its revenue is generated in naira on domestic routes.

Although international air fares have been increased by 144 per cent over the past year, including a 94 per cent last December, domestic fares have been left unchanged.

Most of the 29 foreign airlines serving Lagos believe the increase wasn't enough but only Pan American has stopped flights.

The London-Lagos economy return fare of £986 is estimated to be one of the world's most expensive in passenger-mile terms.

International air tickets purchased with naira in Lagos cost substantially less—about 50 per cent for the London route. This has given rise to large-scale illegal cross-border sales and losses estimated by airline representatives of tens of millions of dollars.

Passenger traffic carried by Nigeria Airways on the London-Lagos route has fallen by about 55 per cent since SFEM was introduced. British Caledonian has cut its flights to six a week from ten after an estimated fall in passenger traffic of up to 50 per cent.

The removal of fuel subsidies in January 1986 also squeezed Nigeria Airways by doubling its monthly fuel bill. The company's fuel costs amounted to some naira 87m last year plus an extra naira 26m incurred as a result of foreign exchange losses due to delays in remitting money to pay for fuel lifted abroad.

Despite difficulties in servicing the airbus loans, Air Commodore Okpere said he had obtained govern ment approval and guarantees to purchase two new Boeing 747 combi (mixed passenger and freight) and six new 737 aircraft. Financing arrangements, including a possible countertrade deal, still have to be fixed.

One Boeing 747 would be used on the Lagos-New York route and the other on a still-to-be-negotiated route to the Far East, Air Commodore Okpere said.

A Boeing 747 combi, serving the London to Lagos route, was reclaimed by Scandinavian Airlines system after the lease purchase contract expired on January 24. "We hope to buy it back soon. We were up to date on lease payments and have made a $3.5m deposit," Okpere said.

The fleet expansion is linked to a major restructuring programme which has been submitted to the Government for approval.

The company would be split into separate international and domestic entities and six specialised subsidiaries created.

Peter Blackburn

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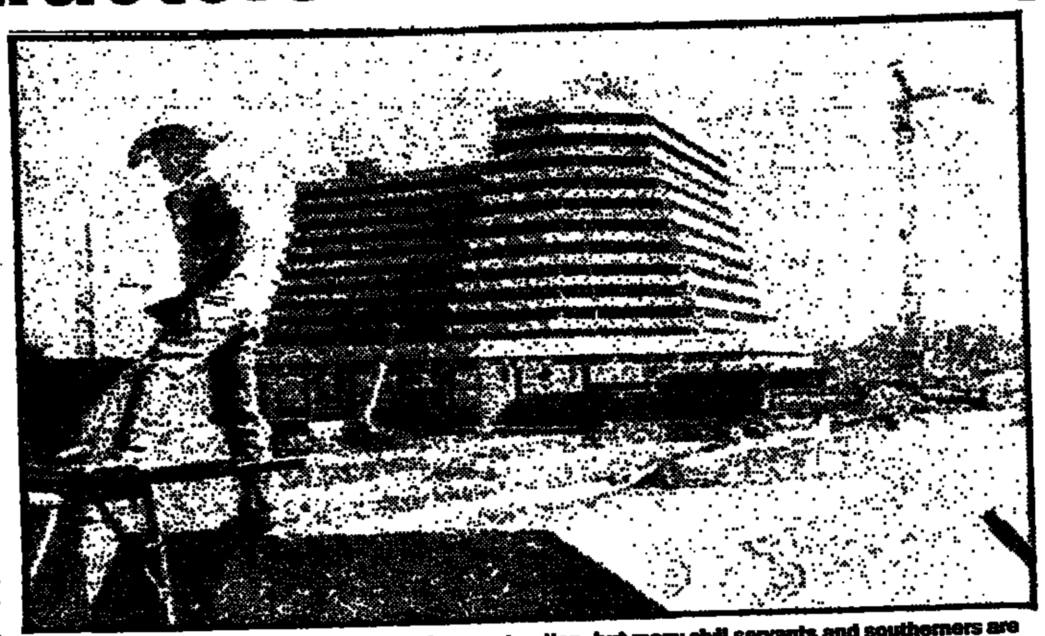
Construction projects

Contractors now more hopeful



Abuja, site of the new capital, is now under construction, but many civil servants and southerners are unenthusiastic about moving their in 1991.

AFTER SEVERAL years of gloom and doom there appears to be a glimmer of hope that the recession may have reached rock bottom and prospects might start to improve for contractors.

The construction sector has been one of the hardest hit by the austerity drive which the Government started early in 1982 after the collapse in oil revenues.

New projects have been few and far between while payments for ongoing work have been seriously delayed, causing many companies to stop work and close down. "We believe 1986 may have been the trough and things will be better this year," the president of the building and civil engineering contractors, Mr Emmanuel Olowo-Okere said.

There should be a "trickle" of new jobs as the Government now realises the need to release funds to revive the construction industry, he explained.

"It is also reasonable to assume that the naira debt mountain should start to diminish," he added. The Federal Government has set aside naira 700m in this year's budget to settle outstanding domestic debts.

The construction industry was disappointed that an undertaking in last year's budget by the government to reduce some of the naira debt through the issue of government bonds was never implemented.

Mr Olowo-Okere pointed out that the main problem is with the state governments which account for about two-thirds of the estimated naira 1.6bn debt owed to contractors.

Although directives have been issued to the 19 military state governors to pay off the debt Mr Olowo-Okere recognised that this was easier said than done.

The federation is sending delegations to see the state governors to impress on them the enormous burden construction companies are having to carry. For instance one member had to pay more than naira 7m in bank overdraft charges over three years in order to maintain cash flow to execute on-going projects.

The most heavily indebted states are Oyo, Rivers and Gongola—while Borno, Plateau and Imo also feature high up the list in per capita terms.

The naira debt was even more crippling because of the sharp fall in construction activity, the federation points out. The turnover of a large number of business has fallen by more than 60 per cent since 1982 and with overheads continuing to rise many have recorded losses over the past three years.

The imposition of a 2½ per cent turnover tax in 1982 just as the industry was sinking into recession was regarded as particularly ill-timed.

The move was motivated by a belief in official circles that construction companies had evaded tax and under-reported profits during the boom of the 1970s.

Despite the financial problems and lack of new contracts, the austerity of the past five years has had some beneficial effects notably the elimination of most emergency contractors. These were often ghost companies formed by unscrupulous businessmen who disappeared as soon as they had collected the mobilisation fee. The abandoned housing sites in Abuja are but one illustration of a countrywide phenomenon.

The emergency contractors also fuelled corruption by inflating contract prices to include hidden commissions for government officials. Cost and technical criteria in the award of contracts were overlooked and the country is now picking up the pieces.

A more recent trend has been the increasing use of direct labour especially for public works maintenance and construction of rural roads.

But it is unrealistic to envisage direct or unskilled labour being used for more sophisticated building and civil works projects, Mr Olowo-Okere says.

British contractors have been among the worst affected by the recession. One of the latest casualties is Taylor Woodrow of Nigeria which has cut staff drastically during the past year and virtually ceased operations.

"British firms are less aggressive and more scrupulous than the French and other foreign contractors" one observer remarked.

In a bid to maintain turnover in a rapidly shrinking market some British businesses took state government contracts even when there was little prospect of payment.

However the expected resumption of cover after a three-year break by the UK's Export Credit Guarantee Department in mid-1987 should help to revive British construction companies. "It will enable us to compete for the larger contracts," the managing director of Costain West Africa, Mr Dennis Smith, said.

Costain is one of the last remaining British construction companies still active in Nigeria. It still has some 18 months work on the N126m Oshogbo-Ede water supply scheme in Oyo state.

"We are trying to identify new and existing projects for completion which would be eligible for ECGD cover," Mr Smith said.

ECGD could cover project loans totalling up to some 900 million in 1987 with priority given to agriculture, industrial rehabilitation and completion of ongoing projects, officials say.

As a result of heavy losses incurred in the past, ECGD is expected to exert much greater care in selecting projects. However, British contractors still hope that the ECGD will show "Flexibility and quick reflexes" in backing bids for Nigerian contracts.

One firm that has managed to ride through the recession is Julius Berger Nigeria. It recently picked up a major infrasructure contract at the new federal capital Abuja as well as two bridge contracts worth nearly 30 million dollars from the federal ministry of works and housing.

"We plan to take on an extra 50 expatriates this year," Julius Berger's contracts manager Mr Carl Heinz Stoecker said.

"There may be fewer contracts but they are now better paid," he added. Unlike other firms Berger adopted a policy of continued working on Ajaokuta and other projects even when payments stopped. The award of new contracts seems to indicate that the policy is paying off, observers say.

In the 1987 budget speech President Babangida again emphasised the need to complete existing projects rather than start new ones.

The biggest one due for completion this year is the naira 727 tonne fertiliser complex which is to start production in April. President Babangida also mentioned the naira 5bn Ajaokuta steel project and the need to bring the flat steel mill into production in the "shortest time possible" and on the "most favourable terms."

Ajaokuta's integrated steel complex, the largest in black Africa, is due for completion by 1989, six years behind schedule. No date has yet been set for starting work on the flat steel mill.

Progress continues on the $2bn second phase petrochemicals complex at Port Harcourt. Bids were recently invited for a 120,000 t/yr polypropylene plant.

President Babangida indicated that the coal industry will be given a "new lease of life" partly to provide coking coal for Ajaokuta and partly to develop exports.

Work has also finally started on the 150,000 b/d fourth refinery at Port Harcourt following the completion of a financing package. The refinery is being built by a Franco Japanese consortium.

Although the 1987 capital budget has been increased by 13.7 pc to naira 6.8 bn, the sharp devaluation of the naira following the introduction of the second tier foreign exchange market last September means that there has been a two-thirds cut in dollar terms.

One new feature in the budget is a naira 730 million allocation for special projects of which Naira 151.7 million is for the federal ministry of works and housing. Another naira 100m is slated for the directorate of food, roads and rural infrastructure.

Due to the new budget heading of special projects, debt repayment and the directorate of food and rural development, the investment budgets for most ministries have been reduced.

While the budget gives the construction industry little cause to rejoice there is a feeling that the debt allocation is a sign of improvement and there are prospects that turnover will rise due to SFEM though many firms will still record losses in 1987.

Peter Blackburn

Abuja: the new capital

Still a deserted look

A HEAVY Harmattan haze hangs over the new federal capital, Abuja, shading out Aso hill which normally provides an imposing rounded backdrop to the infant city.

The herds of white, long-horned Fulani cattle which used to graze in the middle of the city have disappeared since my last visit two years ago.

There are now additional roads criss-crossing the city area and a lot more housing has sprung up.

But the city still has a deserted look with several apparently abandoned building sites. However a Friday afternoon in a predominantly Moslem area is not the best time to judge the level of construction activity.

The gigantic National Mosque with a huge golden dome is now nearing completion though there is still no sign of a Christian cathedral.

Although the city now has some 30,000 inhabitants and should reach 150,000 in 1991 when phase one is completed there are few people on the streets and the place still seems dormant.

The decision to move the federal capital from Lagos on the coast to the greenfield site of Abuja in the centre of the country was taken by the late General Murtala Muhammed when the country was riding high on an oil boom.

The rapid and anarchic growth of Lagos had made it impracticable as a capital due to its intractable traffic, housing and sanitation problems.

In contrast, Abuja, located on an attractive elevated plain enjoys a much healthier climate and the space to plan a well equipped city of some three million people.

Its central location in an ethnically neutral part of the country also makes Abuja a more accessible and acceptable capital especially for the northern moslems.

A master plan for a city of 3.1m people was drawn up in 1978 and construction started in 1980. The symbolic transfer of the capital was made on the country's 22nd independence anniversary in October 1982.

Unfortunately the collapse in world oil markets led to the introduction of a national austerity programme in early 1982 and a sharp slowdown in construction work at Abuja.

But when the military returned to power at the end of 1983 the country's new leader General Buhari maintained the commitment to move the capital though the date for transferring government was put back four years to 1991.

The policy remained unchanged when General Ibrahim Babangida took over in August 1985 and the tempo has started to pick up again during the past year despite the country's continued financial constraints.

The federal capital territory's energetic minister, Air Commodore Hamza Aboullahi promised early last year a renewed effort and now says "Our modest efforts have started to bear fruits."

The Trade and Internal Affairs Ministries have now fully moved to Abuja while Finance and Industries will be moving soon, he says.

Foreign diplomatic missions were recently told to complete the development to offices and staff housing at Abuja within two years.

Despite widespread scepticism Air Commodore Abdullahi is confident that the 1991 transfer date will be respected provided the present tempo of development and level of funding are maintained.

But he added: "One must not underate the magnitude of work and heavy financial outlay to sustain the programme of moving about four ministries every two years."

"This involves the construction of two ministerial office complexes as well as 10,000 housing units and related social infrastructure every year."

There are various signs of progress driving round the city. Two of the city's three large five-star hotels are due to open this year. Work has resumed on the third hotel, the Sheraton, which is now expected to be completed in mid-1988.

With the three hotels providing some 2,000 rooms there should be abundant accomodaton for several years to come.

A four storey international conference centre seating over 1,000 people is due to be completed in time for the next summit meeting of the 16-member economic community of West African States (ECOWAS) in June.

Work is also due to start this year on a naira 100m national sports complex, destined to be the largest in Africa. The contract for the presidential complex, designed to accommodate the president and three visiting heads of state simultaneously, is being renegotiated to take account of escalating costs, partly due to extra security safeguards.

It is hoped that the president will be able to take up residence in 1990. Meanwhile, when President Babangida visits Abuja, he stays at the four bedroom presidential guest house, which contains a special ladies wing.

Outside under the trees two anti-aircraft guns stand guard against aerial attack.

Much of the estimated $2bn spent so far has been on the provision of basic infrastructure such as water and electricity supplies, sewage and stormwater drainage, roads and telephones.

About $150m is spent on infrastructure for each of the districts in phase one, according to Air Commodore Abdullah. Julius Berger Nigeria, a subsidiary of West Germany's Bilfinger and Berger, was recently awarded a major contract worth nearly naira 600m to provide infrastructure for the Maitama district.

The 1987 state capital budget for the federal capital territory has been increased 11 per cent to naira 530m. The main priority will be the completion of all housing and infrastructure projects in phase one.

Lack of decent housing has been one of the main causes of delay in transferring civil servants from Lagos.

Many contracts were awarded to local builders who failed to complete the work and the city is littered with half-finished housing sites.

Last year contracts for more than 8,000 abandoned housing units were revoked and re-awarded to better organised and competent contractors.

There has also been widespread criticism of the housing design, especially of the four storey apartment blocks. They are hot and pokey and ill suited for large African families said one resident.

One encouraging new initiative is that a private airline, Jambo Air, plans to start flying soon to Abuja in addition to state-owned Nigeria Airways.

But while there have latterly been signs of a renewed official effort to transfer the capital many observers remain sceptical whether the 1991 deadline can be met.

Peter Blackburn

For overseas visitors, Lagos, the commercial capital of Nigeria, is not an easy place to do business. It pays to plan ahead.

Perseverance helps in Lagos

"YOU KNOW those horror stories you always hear about Lagos?" a mischievous Nigerian once asked me before my first visit. "Well, the reality is much, much worse."

I am glad to say that he laughed, for the real Lagos inevitably finds it hard to live up to its own fearful reputation among travellers.

Nevertheless, the first-time visitor, steeped in the mythology of Nigerian violence and corruption, can be forgiven for stepping on to the tarmac at Murtala Muhammed airport in Lagos with a measure of apprehension.

Armed with your visa, a yellow fever vaccination certificate and a patient frame of mind, you may find the airport formalities surprisingly easy. After the health checkpoint (often unmanned), arriving passengers queue at immigration to hand in their passports to officials lurking behind a glass screen.

You may expect to wait perhaps 15 minutes between handing in your passport and hearing your name called, and be ready to show your return or onward ticket when you take back your passport.

You are now through to the baggage hall. Collect your luggage, if it has arrived—a porter can be tipped N3 to N4—and even if the luggage has not appeared, go immediately to the far corner of the hall to start queuing for the bank. Visitors are obliged to change money, currently the equivalent of N100, on arrival in Nigeria.

You should keep the yellow currency form, which you will be required to produce on your departure.

Once through the customs, you will face—unless you are being met by friends or colleagues—your first round of negotiations with a Lagos taxi driver.

The drivers and touts surrounding you, shouting at you and trying to snatch your bag will, in fact, be offering what they call hire cars, because their cartel has managed to exclude the normal yellow cabs from picking up passengers at the airport.

The fare to Victoria Island or Ikoyi should be about N25 (much less to the nearby Sheraton Hotel), but by this time you may not feel like arguing over the five naira or so.

Hotels are not ideal, if only because of the difficulty of making telephone calls, and many companies provide comfortable guest houses.

The Sheraton hotel is recommended if all your business is in Ikeja or Apapa, but it is a long and sometimes slow drive to and from the embassies and offices on Victoria Island and Ikoyi at the other end of Lagos. The Eko Holiday Inn and the Federal Palace Hotel are both on Victoria Island.

Lagos was one of the most expensive capital cities in the world. Now, as a result of the devaluation of the naira through the foreign exchange auctions, it is one of the cheapest, with the US dollar worth N3.5 to N4 in early February. Cheap, perhaps, but still not an easy place to do business.

Here are a few tips:

Money: Credit cards are virtually useless in Nigeria. You will need plenty of travellers cheques and you will have to carry around large wads of banknotes, often in small denominations, for your business and leisure activities.

Transport: Lagos by day is seething with reasonably-priced yellow taxis, but you will have to bargain and might end up sharing a ride. Many visitors without access to a company car and driver find it easier to hire a taxi by the hour or by the day at a rate of N10 to N15 an hour for their exclusive use.

The famous "go-slows" (traffic jams) are not as bad as they used to be, but driving in Lagos can still be an enervating experience. Sometimes it is terrifying. "Dey are drivin' bad in dis Lagos," explained one veteran taxi driver in the local English dialect after losing a typical battle of wills with an enemy driver trying to squeeze across our path.

If you are stuck in a go-slow, sit back and read one of Nigeria's lively tabloid newspapers or do your shopping from the traders who besiege the unfortunate victims of the traffic jams.

Domestic air travel: Nigeria Airways is far from reliable. Many travellers prefer to take pot luck and buy their tickets at the airport, which gives them the option of taking the first plane to their destination, be it Nigeria Airways or one of the private airlines such as Okada, Kabo or Gas.

Nigerians, remembering the over-booking nightmares of the past, will rush onto the tarmac to queue for the plane as soon as it taxies in. If you expect the flight to be full, rush with them.

Doing business: Telephoning abroad and within Lagos is not too troublesome, but calls to other cities, and telex calls, can be very difficult. Use the courier companies or send telegrams. Local telegrams are unreliable but international ones reach their destination. Make appointments on the telephone by all means, but it is also worth taking the trouble to call round in person with a business card and a letter of introduction to explain your mission and pave the way for your next visit or even an immediate audience. Business cards are essential. Distribute them liberally.

Power cuts are much less frequent than before, but the National Electric Power Authority (NEPA) is still saddled with the nickname Never Enough Power Anywhere. The morning of the last Saturday of every month is reserved for cleaning up Nigeria as part of the "war against indiscipline" and you cannot normally travel before 10 am.

The "dash": You will regularly hear this word, derived from the Portuguese term for "give me." It means both a tip and a bribe. Tips of course are appreciated, but you will find petty corruption in day-to-day life largely unnecessary, whatever the case may be in your business dealings.

Provided your papers are in order, there is no need to bribe the security forces manning the road-blocks in Lagos or to slip a $10 bill into your passport at the airport.

Leisure: You will not be at a loss for things to do in and around Lagos if you find yourself with a couple of days to spare. Good ideas are an invitation to the yacht club or the polo club—or go to the beach, or stroll through the many markets in the city, or see the remarkable exibition of "Treasures of Ancient Nigeria" at the National Museum.

Health: The climate is hot and sticky, but many cars, houses and offices are air-conditioned. Visitors require yellow fever vaccinations, and should take malaria pills recommended by a doctor. It is advisable to filter and boil tap water before drinking.

Hotels: At the top of the scale is the Sheraton in Ikeja (N215 for foreigners, payable in foreign currency, and N135 for Nigerian residents, excluding tax and service charges); tel: 900930-9, telex: 27202/3.

Other Lagos hotels include:

Eko Holiday Inn, Victoria Island, tel: 615000, telex: 22650.

Federal Palace Hotel and Federal Palace Suites Hotel, Victoria Island, tel: 610030/1.

Ikoyi Hotel, Ikoyi, tel: 603200-8, telex: 22632.

Hilton Hotel, Ilkeja, tel: 960604. telex: 26329.

Restaurants: *Eating out in Lagos is a more pleasurable experience than it used to be, and the city offers a broad selection of restaurants.* Allow about N50 per head at one of the better places.

Some suggestions: Atlantic Nightclub in the Federal Palace Hotel, Victoria Island, Italian food (tel: 615710); Bacchus, Awolowo Road, Ikoyi, expensive, with disco and Lebanese food (tel: 681653); La Brasserie, Adetokunbo Ademola Street, Victoria Island, Indian food upstairs, continental downstairs (tel: 615464).

Others include: Crystal, Awolowo Road, Ikoyi, Korean (tel: 681402); Shangri La at the top of Eko Holiday Inn, Chinese food and excellent views (tel: 615000).

• **Dont forget:** you will need N50 airport departure tax for international flights.

Victor Mallet

BASIC STATISTICS

Area:	923,768 sq.km.
Population:	95.20m (estimate)
Birth rate:	50.4 per 1,000 1980-85 annual average
Death rate:	17.1 per 1,000 1980-85 annual average
GDP per capita:	US$730
Real GDP growth, %:	−6.0 (1986)
Exports:	11,215m Naira (1985)
Petroleum:	10,891m Naira
Imports:	7,933m Naira
Trade Balance:	US$4.4bn (1985), US$0.4bn (1986 estimate)
Current Balance:	US$+1.3bn (1985). US$−2.3bn (1986 estimate)
Gross External Debt:	US$22bn (1986)
Exchange Rates:	US$1=N3.90: £1=N5.96, (Feb. 19).

Crowds and traffic throng the streets of Lagos: life is never dull in the city, by day or night.

Thriving nightlife cheers city

BY DAY, Lagos is an ugly city, a sprawling mess of office blocks, concrete fly-overs, shanty towns and marshes. It looks better by night, when the crowds have thinned and the lights of the cargo ships are sparkling across the harbour.

There are those who will tell you that Lagos nightlife, impoverished by revellers' fears of armed robbers and the advent of the video, is not what it was. But the city still boasts dozens of thriving restaurants, discotheques, jazz clubs and bars catering for all tastes from the bland to the bizarre.

In a narrow street in Ikeja, not far from the Sheraton Hotel and the airport, is The Afrika Shrine, home to the Afro-beat music of Fela Anikulapo-Kuti. A cult figure and one of Nigeria's best-known musicians, Fela is a flamboyant performer who draws enthusiastic applause from Nigerians and foreigners alike.

Many of the nightspots in Lagos appear to be constructed largely from old pieces of corrugated iron, and Fela's ramshackle place is no exception. From the stalls outside you can buy snacks of *suya* (meat kebabs) or giant snails, before paying your five naira entrance fee and settling down with a Star or Gulder beer.

You may also enjoy the pulsating sound of Fela's band of more than 20 musicians and see if you can understand snatches of his anti-establishment songs, in pidgin, about corruption and life in Nigeria.

Phrases such as "construction contract"—a reference to the industry's notorious kickbacks—and the names of the politicians that Fela loves to hate will catch even the untrained ear.

Clutching your bottle of beer and glancing at the photographs on the wall which outline Fela's chequered personal and political career, you will be able to meet Nigerians from many walks of life and savour the muggy warmth of a Lagos evening without the distraction of air-conditioning.

Have a dance, but be prepared for the gaping holes in the floor, the smell of marijuana and the sight of girls dancing provocatively in four illuminated cages at the corners of the stage.

Even Fela's followers have their conventions. If they see two men dancing with a woman they will order one of the men away from the dance floor with the words "one man, one woman!"

Closer to the city centre, in Yaba, is Art's Place, where you can eat, drink and listen to jazz. Try a bottle of palm wine and discuss the world's problems with your neighbour—Art, himself, perhaps, or maybe a local author—in the dimly-lit bar. Around the corner is The Melki Spot of Chief Ebenezer Obey, where you can hear his rendering of Yoruba ju-ju music.

For more jazz, Lagos residents recommend The Extended Family, better known by its address at 38, Awolowo Road. Run by the enterprising Kuboye couple, the jazz bar shares its premises on Ikoyi with a dental surgery and a fishmonger's shop. She is the singer and the dentist, he is the bass player and the fish merchant.

The unaccompanied expatriate male on a tour of Lagos can hardly fail to attract the attention of large numbers of local girls seeking urgently to make his acquaintance. If he is staying at the Eko Holiday Inn on Victoria Island, he has only to walk out of the lobby or wander into the casino to be showered with friendly greetings.

A place on the same island with more character but a similar clientele is Julie's Bar, where you can sip your cold beer on a wooden verandah jutting out over the waters of Five Cowrie Creek.

At first you may think your taxi driver has taken you to the wrong place. You will be confronted only by the usual wall of corrugated iron, bearing a roughly-painted inscription which urges you not to urinate in the car park. Julie's Bar, soon to move, it seems, to a new location, is four years old and run by the small, plump figure of Julie James. She is scornful of her competitors.

"They try to copy me but no way can they do it," she says, keeping a wary eye on her crowded tables.

Nearby, opposite the U.S. Embassy, is Bubbles Bar, universally known as Fiki's after the owner. The establishment has a rather different ambience from Julie's — Fiki's is more suitable for the family — although even Fiki lets a few of the girls in provided they are discreet.

The soft-spoken Fiki (short for Taofiki Balogun) is a typically versatile Nigerian businessman. His waterside bar offers you live music, food and boat trips to the popular Tarkwa beach.

Food and music often go together in Lagos, but the city has a good selection of restaurants (some suggestions are listed elsewhere on this page) for the more sedate visitor, who can choose from Nigerian, European, Chinese, Indian, Lebanese and other dishes.

The authorities, concerned about armed robbery by the likes of the recently captured master criminal Lawrence Anini, alias "The Law" (Law is for Lawrence), have urged people not to travel between midnight and 6 a.m. But the situation has been improving. Provided you keep to the main routes in your car or taxi, your worst experience is likely to be a perfunctory check by the security forces at one of the city's many road blocks.

Lagos, the commercial centre of Africa's most populous country, is far from dull, by day or night.

Victor Mallet

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SECTION II – COMPANIES AND MARKETS

FINANCIAL TIMES

Monday March 2 1987

INTERNATIONAL BONDS

Perpetual floater market suffers from that sinking feeling

BY CLARE PEARSON IN LONDON

HOW MANY lives does the perpetual floating-rate note (FRN) market have? It has "died" so many times over the last few months that market makers themselves are perplexed about whether the further downturn last week signifies the final death throes or just another relapse.

The events of last Tuesday looked to many like the end. Most of the rump of market makers halted making firm prices in the notes, which have no maturity date and have mainly been issued by banks seeking to boost capital ratios because they can count as primary capital.

But by the end of the week seven of the remaining 10 market makers were back making firm prices to each other although none claimed that much business was being done. This was because quotes were being made with a full percentage point spread between bid and offered prices.

Deals done were mainly to square positions. There was speculation that two houses were sitting on sizable opposing long and short positions.

The narrowing and widening of dealing spreads is a measure of confidence in a market. By widening them so far dealers were admitting that confidence had disappeared. One-point spreads would have the effect of applying the brakes to trading, which traders hoped was the route to stability.

Many dealers were concerned about whether the commitment among market makers would survice the end of the first quarter. Until then, the hope that they can reduce their losses from perpetual FRN trading is an inducement to trade.

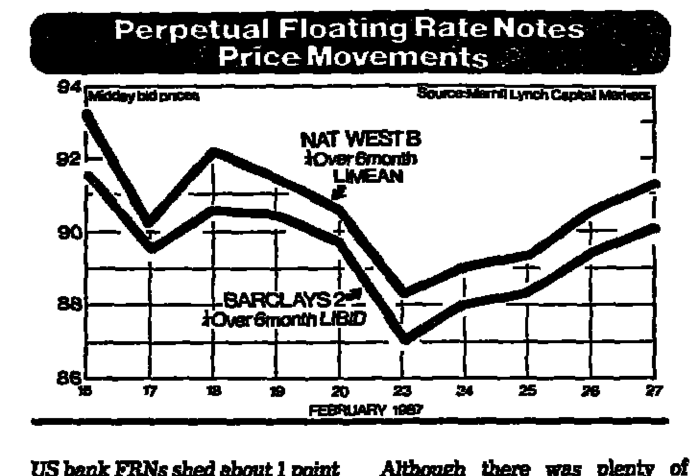
The longer-term survival of the market hinges on whether investors can be tempted back again, and the start of the new Japanese financial year at the beginning of April will be the testing time for this.

Large sales by Japanese institutions not wanting to have loss-making positions at the year-end largely accounted for the recent downturn in the market. A large amount of the $17bn sector is still believed to be in Japanese hands, however.

Whether or not perpetuals are ever actively traded again, no one is looking for the re-opening of the new issues market. One UK clearing bank, which had borrowed substantially in the market to obtain primary capital, said last week: "When the market initially collapsed before Christmas, we were expecting a rebound. Now we feel sure we'll have to find another way to get cheap primary capital."

Last Tuesday's closure of the professional market was the culmination of several days of price volatility, reaching an extreme on Monday when prices for some issues fell by around 5 points. This type of movement is unheard of in the dated FRN market, where maintenance of capital value should be more assured.

The Brazilian debt problem was also partially responsible as it knocked confidence in the conventional FRN market which could only further undermine the perpetual sector. It also stretched the manpower available to cope with both frenetic markets.



US bank FRNs shed about 1 point in price – a big drop for the sector – during the week. Dealers said, however, that some investors were picking them up at the lower levels.

Concerns about Brazil may also have influenced the fixed-rate sector, in so far as houses looking at worrying losses on their FRN book may have been all the more reluctant to take on fixed-rate bonds

Although there was plenty of news on currencies and the US economy, prices of fixed-rate issues barely moved.

Overall, however, the outlook for Eurodollar issues became more bullish. The foreign exchange market seemed to show confidence in the Paris agreement on currency stabilisation, and the dollar was unaffected by the US January trade figures.

The Eurodollar market's listlessness was mainly a reflection of the extent to which it has become dominated by professional investors. Unlike retail investors, these either fund themselves in dollars or hedge their positions, and so they are not affected as much by currency movements.

Their demand seemed to have been absorbed by recent issues: "Eurobond prices failed to respond to movements in US Treasury bonds and yield spreads relative to us Treasury bonds generally widened. This marked a reversal of the tendency to narrowing spreads evident earlier in the year when new issues were not so plentiful.

D-Mark issues were generally marked lower by about ¼ to ½ point during the week This was partly because foreign buying – which is usually motivated by currency speculation – was low. It also reflected an overloading of the market as DM 4.95bn of new issues emerged during February, compared with DM 3.62bn in January.

Some of the new issues were performing well, however. On Friday, for instance, a DM 300m issue for Nippon Telegraph and Telephone was bid at a discount to issue price of 1⅛ points, within 2½ per cent fees. A DM 200m issue for the National Bank of Hungary was bid at less 1¾, against 2¼ per cent fees.

The Euroyen market continued to look healthy, still buoyed by domestic Japanese interest. This has surged in recent weeks as the yield differential between Euroyen and domestic bonds has widened.

It was feared that the appearance of the two issues last week for the Japanese power companies, Tokyo Electric Power and Chugoku, would trigger a sell-off of issues for sovereign names, but this did not occur. Some of the more tightly priced issues failed to improve along with the rest of the market, however.

The mid-week 0.3 per cent reduction in the banks' prime lending rate to 5⅛ per cent, which followed the cut in the discount rate on Monday, helped keep the market firm. Dealers said investors were concentrating mainly on the longer maturities to take advantage of the steep yield curve.

Philippines boardroom conflict predicted

By Richard Gourlay in Manila

SAN MIGUEL, the largest industrial corporation in the Philippines, has been forced to accept on to its board the chairman of a Government-controlled bank that is currently managing over half the company's shares.

Mr Ramon Sy, chairman of United Coconut Planters Bank (Cocobank), will join the beer company's board this week despite protests from San Miguel president, Mr Andres Soriano III, that the appointment will lead to a conflict of interest.

San Miguel has been trying to buy back two blocks of shares worth around $228m at market rates which Cocobank has controlled since last April when they were sequestered by the Presidential Commission on Good Government, the body charged with retrieving the wealth allegedly spirited out of the country by former President Ferdinand Marcos.

The commission suspected that $160m paid by San Miguel in its attempt to buy back 33.1m of its shares would end up in the hands of Mr Eduardo Cojuangco.

Mr Sy requested the seat on the San Miguel board after it had emerged that Mr Soriano appeared to be trying to sell a prime company asset – the Hong Kong Brewery – in order to finance the share buy-back which would strengthen his own management position against the interests of small San Miguel shareholders.

Meanwhile, San Miguel has raised its offer on the 33.1m shares and on 5m shares that are now attached as stock dividend.

● Philippine Long Distance Company, the country's dominant communications corporation, raised its net profit last year by 243 per cent to pesos 1.9bn ($92.7m).

EUROCREDITS

Bankers foresee end to three years of tumbling fees on country loans

AS ONE major refinancing of a sovereign-risk standby loan closed and another was launched, some international bankers were last week predicting an end to the three-year downward spiral in the fees borrowers pay for such credits, writes Stephen Fidler in London.

They were less confident about predicting a rise in fees and interest margins since competition in the shrinking syndicated credits market remains intense. But there was a broad perception of market resistance to recent deals that suggested a floor may have been reached.

A $1bn renegotiated deal for the state-owned Electricité de France was signed last week with the original 76-bank syndicate having shrunk to 56. This included many new entrants after original participants declined to accept the new terms.

Of the 56, only a handful were American, including Citicorp which arranged the deal, while well over 50 per cent of the amount was taken by French and Japanese banks.

In a backhanded compliment, one competitor described completion of the deal as a "tribute to Citicorp's syndication skills." With the facility fee squeezed to 5 basis points and utilisation fees ranging up to only 10 basis points, the new credit yielded just the London interbank offered rate, Libor.

The margin on the refinancing for Sweden launched last week by Chase Investment Bank was 4 basis points over Libor. Commitment fees were cut from 6.25 per cent to 4 basis points for the first four years, and 5 basis points for the remaining four. Utilisation fees scaled up to 10 basis points.

Chase said the syndication had gone well and should be wrapped up next week. A wide geographic spread of banks had so far expressed their intention to join.

Indeed, Swedish debt is more attractive to many borrowers than its French equivalent because it is rarer. The reduction in the size of the facility, cut by a third to $1.2bn, should ensure the deal is completed, despite the extension of the final maturity from 1991 to 1995.

But resistance to such terms, particularly for renegotiated deals, clearly exists. One banker commented: "Banks will be stupid if they continue to cut margins and contingent-liability fees beyond present levels."

The secondary market in bank loans provides a mechanism through which market forces can more quickly influence rates on new borrowings.

For six months or so, yields in the secondary market have been higher than those obtainable on new loans for many borrowers. Why, without a fat fee for arranging a deal, should second or third-tier banks join a new credit which yields less than loans they can pick up in the secondary market?

There was, in fact, little in the way of new business last week. Turkey, whose appearance has punctuated market lulls several times over recent months, mandated five US banks to raise a further $170m last week.

The deal, targeted at US banks, is Ex-Im Bank-linked. An $85m guaranteed portion carries interest at ½ a percentage point over Libor for its six-year life, and 18 months' grace.

The Turkish risk portion carries part based at ¾ of a point above the US prime rate – probably an attractive prospect for some banks – and part at 1¼ points over Libor. Final maturity is six years, with 24 months' grace. Commitment fee is a half-point.

Several commercial paper programmes were announced late last week, including one for £100m for the prime-rated UK retailer Burton with a dollar option.

EUROMARKET TURNOVER
Turnover ($m)

Primary Market	Straights	Conv	FRN	Other
US$	1,114.4	166.9	1.0	4,012.9
Prev	4,147.9	–	28.0	4,317.4
Other	3,368.2	1.5	–	160.8
Prev	3,831.5	4.3	480.5	315.3
Secondary Market				
US$	16,583.8	1,835.9	12,636.5	6,536.3
Prev	27,215.3	1,989.4	17,307.9	5,888.7
Other	18,130.4	248.0	2,407.3	8,967.4
Prev	18,229.0	489.9	3,591.6	10,136.3

	Cedel	Euroclear	Total
US$	11,966.4	32,925.5	44,891.9
Prev	19,435.0	41,436.7	60,871.7
Other	15,480.7	18,803.7	34,284.4
Prev	17,542.9	19,544.5	37,087.4

Week to Feb. 26, 1987 — Source: AIBD

INTERNATIONAL CAPITAL MARKETS

UK GILTS

Prices held back by great expectations

NOW THAT the UK government bond market has pretty well discounted a bumper Budget, the next cut in base lending rates and a subsequent improvement in the Government's lead in opinion polls, it is hard to see prices forging ahead until all these pleasant events have actually come to pass.

Gilts wandered this way and that last week with little conviction. There seemed to be very little domestic institutional interest. Overseas interest persisted, particularly when sterling was rising, but this business was two-way and short-term, with purchases at the bottom end of the current range and profit-taking at the top.

Gilts started the week looking rather uninspired in common with most other markets which were left contemplating the text of the Paris communique. They then fell in mid-week along with sterling, which at last seemed to react to the steady recent decline in oil prices. By the end of the week, prices were again marching up on sterling's coat tails and ended Friday on a strong note as the Government Broker left the market untapped.

Market makers believe the Bank of England is so far ahead with its funding that a tap now would probably be offered only in an attempt to break the enthusiasm of a runaway rally. The absence of fresh funding on Friday could correspondingly be taken as a sign that the Bank believes the market is a touch vulnerable.

Certainly, given the size of its rally since the turn of the year, one should not expect any quick further progress and now may be the best time to take some profits.

The beginning of last week saw a somewhat chastened market adjust to the idea that the authorities were not going to sanction an early cut in base lending rates.

The Chancellor's remark in Paris that he did not want sterling to fall from current levels but nor did he want it to rise too far has left open the possibility of a base rate cut before the Budget if sterling were to appreciate very strongly.

But if a bout of unbridled sterling strength is not in the pipeline, it seems more likely that the Government will wait until after the Budget to cut rates. Presumably, a wave of post-Budget euphoria would provide another clear opportunity to cut rates if Mr Lawson wanted to.

The reason he might want to is the follow-on cut in mortgage rates, which would conveniently bring down the retail prices index. The reason he might resist is because the economy is already strong even before receiving another boost from tax cuts. Mr Lawson is more likely in a position to be ultra-generous in the Budget and he could choose to resist base rate cuts as a sign of ultra-prudence.

Given that much of the market's underpinning at the moment is based on assumptions of a Conservative victory in the General Election—and indeed hopes that the poll will be called early—interpretation of the results of the Greenwich by-election could be a factor in trading next week.

Instant analysis is by no means easy. Mr Keith Jones, head of gilts sales at James Capel & Co, said the results could be taken either way. The extent of the tactical voting which ousted the Labour Party could be seen as a positive outcome for the Conservatives. On the other hand, he said, it would be dangerous to risk a bandwagon effect in favour of the Alliance which could backfire on the Government.

There appeared to be a total division of opinion in the market on Friday about the ramification, if any, of Greenwich. Whatever conclusions are reached, any hint that the Prime Minister will delay calling the election until the autumn or later must be one of the biggest risks faced by a market which is currently betting on a May or June election.

Gilts showed little reaction to Friday's balance of payments figures which government officials described as freakish. However, it will be worth watching out for the Central Statistical Office's revisions of invisible earnings over the last two years, due to be released on Thursday, and which it acknowledges should show smaller surpluses than previously thought.

In light of the National Institute's substantial downward revision of its forecast for the current account deficit this year after taking another look at the buoyancy of invisibles, the CSO's findings should be quite fascinating.

Janet Bush

US MONEY AND CREDIT

Bonds find support from currencies

THE US government bond market is proving quite a resilient animal. Figures released last Friday showed that January was a month in which consumer prices rose sharply and the US deficit in trade with the rest of the world yawned. A bear of bonds could make the devastating case that the steep depreciation of the dollar has done nothing for the US ability to export goods, merely made imports pricier. Either the dollar must fall further, with the risk of rising interest rates to keep foreign funds invested, or the US is suffering from an ailment unknown to economic medicine.

Fortunately for the market, there were few bears around on Friday and bond prices inched up steadily. By the time the New York markets closed, the Treasury long bond was up 1¼ on the week. While this may not amount to a rally, it was a change after the doldrums that set in with the Treasury refunding at the beginning of February.

Bonds had considerable support from the foreign exchanges. Since the Paris currency meeting a week ago, the dollar has traded within a narrow band. Some say that the foreign exchange market has been cautious about selling dollars for fear of triggering intervention from central banks at, say, DM 1.80 or Y150. The hopefuls argue that the dollar is stabilising because the markets have recognised that the Japanese and West German economies are weakening.

None the less, the US trade figures were pretty awful. The January deficit was nearly $15bn, and a further $2bn of imports were added to the December figure, which was supposed to show that US trade had turned the corner (or rather, the curve in the J-curve). On the adjusted basis, January imports were actually more or less unchanged, while exports fell by more than 11 per cent from December's level.

The figures for the consumer price index were just as bad, showing a 0.7 per cent increase in January over December. If that figure were simply annualised, the US inflation rate would be over 8 per cent (against 1 per cent last year), implying a negative real yield on government bonds.

There may have been special factors in both sets of figures. The Administration tried to argue that bad weather, and particularly snowstorms in the north-east, may have prevented potential exports from reaching ship or Canada. This is not all that plausible but it will be hard to know what exactly is happening until mid-April.

From now on the Commerce Department will issue trade figures only when all the information has been gathered rather than first in raw, and then in adjusted form. As one cynical foreign exchange trader put it, this may be no bad thing. A set of poor unadjusted figures might just tempt the market to test the readiness of foreign central banks to intervene.

The increase in the consumer price index is more easily explained. The market decided that the inflation increase could be set down to a steep but temporary rise in energy prices, such as petrol and heating oil, caused by an outbreak of agreement in the Organisation of Petroleum Exporting Countries and a heavier weighting in the index. However, the bond market drew most of its strength at the beginning of the week from signs that the Opec agreement was coming apart. Crude oil futures (for April) fell steadily, ending the week at only $16.60.

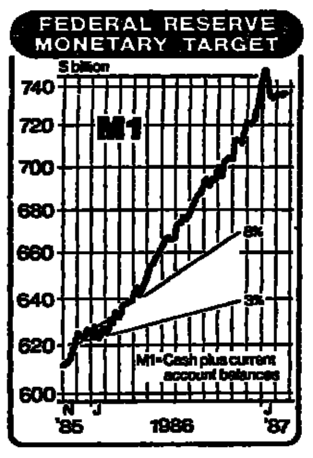
In its present mood, the market seems less interested in bad omens for the currency and inflation but is ready to seize on evidence that the economy is weak and may need help from monetary policy. On this view, the decline in exports in January is of a piece with the other economic news last week: a sharp 7.5 per cent drop in durable goods orders in January, including a 20 per cent decline in non-defence capital goods, weak motor sales and falling consumer spending. In other words, if monetary policy is to go anywhere, it will be eased to prevent the US sliding into recession (or causing other sovereign debtors to follow Brazil's lead in postponing interest payments).

This week, two important sets of economic figures may well confirm the market in its suspicions of the weakness of the economy, according to the latest forecast. The forecasts are the median estimates of 39 economists surveyed last Friday by Money Market Services of Redwood City, California:

● January index of leading economic indicators, Tuesday at 8.30 am. These are expected to post a modest decline after the 2.1 per cent advance in December. The median forecast is for a drop of 0.5 per cent, with the range extending from a fall of 1.1 per cent to a rise of 0.1 per cent.

● February employment data, Friday at 8.30 am. This will be closely watched by the market after the very large gain of 440,000 in non-farm employment in January. However, the median estimate is for a more modest rise of 175,000, with estimates ranging from 75,000 to 250,000. The figure for manufacturing employment will be swelled by the return of striking workers at Deere and USX. The median civilian employment rate is 6.8 per cent, with estimates as low as 6.6 per cent and as high as 6.9 per cent.

James Buchan



US MONEY MARKET RATES (%)	Last Friday	1 week ago	4 wks ago	12-month High	Low
Fed Funds (weekly average)	5.97	6.19	6.25	11.34	5.71
Three-month Treasury bills	5.44	5.59	5.60	7.03	5.01
Six-month Treasury bills	5.45	5.59	5.60	7.01	5.06
Three-month prime CDs	6.15	6.17	6.00	7.65	5.48
30-day Commercial Paper	6.08	6.05	6.00	7.75	5.52
60-day Commercial Paper	6.00	6.00	6.00	7.89	5.45

US BOND PRICES AND YIELDS (%)	Last Friday	Change on week	Yield	1 week ago	4 wks ago
Seven-year Treasury	100¼	+¼	6.97	7.06	6.98
20-year Treasury	117⅝	+1¼	7.53	7.73	7.70
30-year Treasury	[illegible]	[illegible]	7.47	7.56	7.58
New 10-year "A" Financial	N/A	N/A	[illegible]	[illegible]	[illegible]
New "AA" Long utility	N/A	N/A	8.70	8.55	8.62
New "AA" Long Industrial	N/A	N/A	8.85	8.80	8.86

Money Supply: In the week ended February 16 M1 rose $2.1bn to $736.7bn

Source: Salomon Bros (estimates).

NRI TOKYO BOND INDEX December 1983 = 100	Performance index 26/2/87	Average yield (%)	Last week	12 wks ago	26 wks ago
Overall	135.86	4.40	135.08	131.20	126.76
Government Bonds	137.01	4.03	135.98	132.02	128.90
Municipal Bonds	135.56	4.94	135.22	131.58	128.47
Government-guaranteed Bonds	136.94	4.86	135.16	132.26	128.04
Bank Debentures	131.54	4.04	131.18	127.63	125.42
Corporate Bonds	134.66	5.31	134.24	129.76	126.66
Yen-denominated Foreign Bonds	135.71	5.29	135.46	132.12	128.76
Government 10-year†	—	5.08	—	5.22	5.32

† Estimated par yield.

Source: Nomura Research Institute.

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS	Issued	Bid price	Chg. on week	Yield
ABN Bank 8½ 91	150	103	0	7.61
AHFC O/S Fin 11¼ 94	100	102½	-0½	11.21
AIDC 11 89	75	108¾	0	7.39
Alcan Australia 8½ 89	25	100	0	8.48
Alcoa Australia 11 92	80	108½	0	9.38
American Exps 12¾ 88	150	108¼	0	6.87
Asian Dev Bk 11¾ 93	100	115⅝	+0⅛	8.55
Australia 11¼ 90	100	110⅜	+1	7.73
Australia 11¼ 00	100	117⅝	+0⅜	8.95
Austria Zero 95	100	51¼	+0⅛	8.29
Bank of Montrl 14½ 87	100	101½	-0⅛	7.86
Bank of Tokyo 8⅝ 96	100	101⅞	+0⅛	8.07
Bank of Tokyo 11 90	125	109⅞	0	7.31
Bank of Tokyo 11⅞ 90	100	0		
Bank of Tokyo 13½ 89	100	115⅝	-0½	7.18
Barclays Jersey 10⅛ 90	250	108¾	0	7.33
Barclays Jersey 10⅝ 95	250	114⅝	+0⅞	8.22
Belgium 7½ 91	250	0		
Belgium 7⅞ 91	300	100⅞	+0⅛	7.49
Betawest Prop 7¾ 93	150	99⅜	+0½	7.82
BFCE 7¾ 93	100	97⅞	+0⅛	7.68
Bk Nova Scotia 13¾ 87	100	102	-0½	7.72
BNP 8¾ 93	125	103	+0⅛	8.10
BNP 13½ 89	150	114⅝	+0½	7.12
BP Capital 9⅝ 93	150	107⅞	-0⅛	7.89
BP Capital 11⅛ 92	150	111½	-0⅛	8.22
Br Col Hydro 10⅞ 88	200	103¾	-0⅛	6.77
Br Col Hydro 11¾ 93	200	119⅝	+0⅛	7.89
Campbell Soup 10½ 95	100	113⅞	+0½	8.28
Canada 10⅞ 88	500	106⅞	0	6.74
Canada 11½ 90	500	112	0	7.01
Canadn Imp Bk 16¼ 91	100	115⅞	-0⅛	12.19
Can Natnl Rail 14¾ 91	100	113⅞	0	10.88
Canadian Pacific 7½ 96	100	95⅝	+0⅛	8.17
Canadian Pacific 10⅝ 93	100	108⅞	0	8.78
Can Pacific Secs 15 89	75	115½	0	7.79
Canadian Wheat 11¼ 90	50	103⅝	+0⅛	9.97
CCCE 7¾ 91	113	99⅞	0	7.31
Centrust S&L 0 10	1.2bn	12	+0⅛	9.67
Chevron USA 12¾ 89	600	0		
Citicorp 11¾ 92	100	107⅞	-0⅛	9.72
Colgate-Palmolive 9½ 96	100	107⅞	+0⅛	8.27
Com Bk Australia 10 93	100	110⅞	+0⅛	7.83
Cm Bk Australia 12¾ 89	100	112⅞	0	7.20
Continental Grp 11½ 93	75	103	+0⅛	10.80
Crocker National 10½ 88	75	103	0	7.52
Dart Kraft A 10⅞ 96 SW	100	107⅞	+0⅛	9.02
Denmark 0 98	250	38⅞	+0⅛	8.79
Denmark 7 88	1.0bn	100⅞	-0⅛	6.86
Denmark 10⅞ 90	100	103⅞	+0⅛	9.46
Denmark 11½ 92	100	116	0	7.59
Denmark 13 92 XW	100	101	0	12.69
Denmark 13¾ 91	100	0		
Deutsche Bk Fin 13½ 89	200	113⅞	+0⅛	7.22
DKB Asia 8⅞ 91	100	102⅞	+0⅛	7.52
Dutch St Mines 11¾ 91	150	105¼	-0⅛	9.74
ECSC 7 89	75	100⅞	+0⅛	6.84
ECSC 8¼ 96	108	102⅞	0	7.92
EDF 10⅞ 95 A	100	109⅞	-0⅛	8.83
EEC 9¾ 90	350	105¼	0	7.78
EIB 7¼ 93	150	0		
EIB 8½ 88	100	101	+0⅛	7.33
EIB 8¾ 88	50	100⅞	0	8.14
EIB 8¾ 93	100	101½	-0⅛	8.41
EIB 9¼ 93	100	101⅞	+0⅛	8.74
EIB 10⅞ 94	200	0		
EIB 11 91	125	113⅞	+0⅛	7.14
EIB 11⅝ 91	73	111⅛	-0⅛	8.06

[illegible]

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for yen bonds, where it is in billions.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate († three-month; § above mean rate) for US dollars. C.cpn=current coupon.
CONVERTIBLE BONDS: US dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price.

WARRANTS: Equity warrant prem=excess premium over current share price. Bond warrant ex yld=exercise yield at current warrant price.

Closing prices on February 27.

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INTERNATIONAL CAPITAL MARKETS and COMPANIES

Currency gains lift profits at Saga

By Sara Webb, Stockholm Correspondent

LARGE GAINS on currency transactions helped Saga Petroleum, the Norwegian oil company, lift profits after financial items to about NKr 63m ($9m) for 1986, compared with NKr 13.7m in 1985.

However, operating profits have fallen from NKr 324m in 1985 to NKr 32m, because of the fall in oil prices during the spring and summer of 1986.

The board does not propose paying a dividend because of uncertainty over oil prices and the company's investments. Instead, it "suggests the profit is used to strengthen the solidity of the company."

Petroleum sales fell 25 per cent to NKr 614m, compared with NKr 818m the previous year, though the fall in income was partly offset by the company's 24 per cent increase in oil production.

Saga's currency transactions included NKr 323m realised on forward sales of US dollars.

Following its share issue of NKr 533m at the end of 1986, the company now has a share capital of NKr 1.6bn. It plans to invest NKr 1.4bn on the Norwegian shelf, chiefly in the Gullfaks and Oseberg oil fields.

The board has concluded that the Snorre field is economically viable and could come on stream in 1992.

Koc and Fiat in Turkish tractor move

By David Barchard in Ankara

THE MOTOR division of Koc, Turkey's largest industrial group, and Italy's Fiat, are negotiating with the Turkish Government for a merger between Turk Traktor, a Koc-Fiat joint venture, and Tumosan, a state-owned motor company which makes Fiat engines under licence.

The merger would be part of a shake-up in the troubled Turkish tractor industry where five producers currently have an annual capacity of 90,000 units in a market in which only 28,000 units were sold last year.

If the merger goes ahead, Koc and Fiat would put up TL 10bn ($12.9m) in capital to finance the venture.

Canadian Big Bang rules unveiled

BY BERNARD SIMON IN TORONTO

FOREIGN financial institutions will have at least three avenues of entry into the Canadian securities industry after the Big Bang due to take place on June 30, according to draft regulations published by the Ontario Securities Commission (OSC) at the weekend.

Outlining the long-awaited new rules, Mr Stanley Beck, OSC chairman, predicted that they will lead to a "major expansion" of the Canadian capital market, already the world's fourth biggest in equities trading.

In terms of the rules, Canadian financial institutions, such as banks, trust companies and insurers, will have unfettered freedom to enter the securities business from June 30. The proposals include a controversial provision requiring banks, which are regulated by the Federal Government, to register with provincial authorities if they enter the securities business.

Mr Beck said that he expects the new entry route to be more popular than takeovers of existing securities firms.

Foreign institutions will initially have a choice between registering as international dealers or foreign dealers, and taking a stake of up to 50 per cent in a Canadian dealer.

The activities of international dealers will be confined to foreign securities and to institutional business in unlisted securities hitherto distributed abroad.

Foreign dealers, that is those wishing to offer full service, will for the time being be limited to the wholesale market. This restriction, as well as the 50 per cent limit on non-resident ownership in domestic firms, will be dropped in mid-1988.

The OSC will require 21 days written notice from any non-resident investor planning to buy an interest of 5 per cent or more in a securities dealer. The commission may object to the transaction if the purchaser's home government does not give Canadian securities firms reciprocal treatment.

The draft rules include a code of conduct to regulate conflicts of interest and transactions among affiliated companies. The code is based on full disclosure rather than sweeping prohibitions. Mr Beck said the OSC would form a new capital markets division and raise its staff by 20 per cent to carry out its new supervisory duties.

Reacting to the announcement, Mr Tom Hockin, Canada's Minister of State for Finance, said the new regulations raised concerns about an apparent intrusion of provincial authority into Federal jurisdiction. "The insertion of a second authority would lead only to confusion and uncertainty—and would not be helpful to the industry itself," he added.

Campeau in big property sale

BY OUR TORONTO CORRESPONDENT

CAMPEAU, the Canadian property developer, is to sell half of its flagship project in downtown Toronto to help reduce debt incurred in its purchase last year of Allied Stores, the big US retailer.

Olympia & York Developments, another Canadian property group controlled by the Reichmann family, said that it has agreed in principle to buy a 50 per cent interest in Scotia Plaza, the 68-storey head office of the Bank of Nova Scotia presently under construction in the heart of Toronto's financial district.

Details of the transaction were not disclosed, but Campeau earlier estimated the cost of Scotia Plaza at a minimum of C$400m (US$ 300m). The project, which will be the second tallest office building in Canada, is due for completion next year.

Speculation has grown in recent weeks on the action which Campeau will take to facilitate its digestion of the much larger Allied group, which was acquired last December for US$3.4bn after a fierce takeover battle. Allied's revenues are about 25 times those of Campeau.

Campeau's burden has already been lightened by an agreement by Mr Edward DeBartolo, a US property developer, to buy five of Allied's shopping malls for US$400m. Campeau has subsequently exercised an option to take a 50 per cent stake in the malls.

Campeau is also said to be weighing the possibility of selling two of Allied's best-known speciality chains, Brooks Brothers and Ann Taylor. In terms of the takeover agreement, Campeau's bank lenders asked for the sale of 16 of Allied's 24 chains to raise about US$1.1bn.

$265m buyout agreed for Purolator

By Our Financial Staff

PUROLATOR Courier, the New Jersey-based overnight courier company, has agreed to be acquired for about $265m by a company formed by E. F. Hutton LBO, a unit of the Wall Street investment bank, and certain managers of Purolator's US courier business.

Hutton LBO will be majority owner of the company. It said the acquiring company, PC Acquisition, is paying $35 cash per share for 83 per cent of Purolator's stock in a tender offer to begin on Thursday.

The balance of the shares will be purchased for securities and warrants to buy stock in a subsidiary of PC Acquisition, containing Purolator's US courier operations.

If all the shares of Purolator are tendered, shareholders would receive for each share $29 cash, $6 in debentures, and a warrant to buy shares in the subsidiary of PC Acquisition containing the US courier operations. On Friday, Purolator's stock closed at $35¼.

The sale of Purolator follows on those of two of its subsidiaries. It agreed recently to sell its Canadian Courier operation to Onex Capital for $170m, and has previously sold its auto filters business, the company's original activity.

E. F. Hutton will provide $279m of its funds to complete the transaction. This so-called "bridge" financing would be replaced later with long-term debt, most likely in the form of bank loans, Hutton said.

First-half decline at Abercom

By Jim Jones in Johannesburg

ABERCOM, the troubled South African engineering company, suffered further turnover and profit declines in the six months to December but believes that trading will improve during the current six months.

First-half turnover fell to R114m ($55m) from R127m and pre-tax profits were R913,000 against R3.9m. The directors say that foreign trading conditions were more difficult

Interim per share net earnings fell to 4 cents from 17 cents and the dividend has been held at 6 cents.

Borg-Warner rejects bid for Australian offshoot

BORG - WARNER, the US vehicle parts and industrial products group, has rejected a A$162m (US$109m) takeover bid for its Australian unit from BTR-Nylex, the 59 per cent-owned Australian offshoot of the UK conglomerate, reports AP-DJ from Sydney.

The US company did not say why it turned down the offer for its 75 per cent stake in Borg-Warner Australia. Directors of the Australian vehicle parts company advised shareholders to ignore the bid because BTR - Nylex's offer carries a 50.1 per cent acceptance condition

Borg-Warner Australia has indicated higher offers might be made for the company. BTR Nylex is offering A$4 for each ordinary and preference share.

● Meanwhile, Union Carbide of the US has failed in a bid to buy the 40 per cent of Union Carbide Australia and New Zealand it does not already own.

Minority shareholders rejected the offer for the unit, which was made in January at A$5.75 a share.

Industrial Equity, Mr Ron Brierley's Australian investment vehicle, topped this with a bid of A$6 a share. It owns 10 per cent of Union Carbide Australia and New Zealand.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book Runner	Offer yield %
U.S. DOLLARS							
Coquna ‡	125	1992	5	7¼	101¼	BNP	6.949
Cellular Communications §‡	80	2002	15	8	100	Warburg Securities	8.000
Mitsubishi Estate Co. ¶	300	1994	7	(3¼)	100	Nikko Secs. (Europe)	*
Sumi Denki ¶	70	1992	5	(3¼)	100	Nikko Secs. (Europe)	*
III International §‡	75	2002	15	8¼	100	CSFB	8.250
Ex-Im Bank of Japan (f) ‡	100	1997	10	7½	99.60	Salomon Brothers	7.671
Queensland Gov. Dev. Auth. ‡	100	1992	5	7¼	100⅛	CSFB	7.219
Lives Ltd. (c) †‡	150	1992	5	⅛	100	Nomura Int.	*
Wyle Laboratories §‡	25	2002	15	6¼	100	Kidder Peabody	6.250
Man. Life M'gage Sec. ‡	142.5	1997	10	8¼	100⅞	Salomon Brothers	8.119
Man. Life M'gage Sec. ‡	92	1993	6	7¾	101	Salomon Brothers	7.537
Omron Tateisi Elec. §	150	2002	15	(2¼)	100	Nomura Int.	*
CANADIAN DOLLARS							
Xerox Canada Fin. ‡	75	1997	10	9¼	101½	McLeod Young Weir	9.149
Bcpts. for Gvt. C'ada Bonds ‡	100	1994	7	8½	100	UBS (Secs)	8.500
Federal Industries ‡	40	1992	5	9¼	100⅛	UBS (Secs)	9.098
Prov. of Newfoundland (g) ‡	75	2007	20	9½	101½	CCF	9.227
AUSTRALIAN DOLLARS							
G'ssenschaftliche Z'bk ‡	40	1992	5	15	101¾	Warburg Securities	14.484
Badische Kommunale L'bk ‡	30	1992	5	14¾	101½	ANZ Merchant Bank	14.318
PKbanken ‡	30	1992	5	14¾	101½	BHF-Bank	14.383
BMW Finance ‡	100	1992	5	14½	101½	Bayerische Vereinsbk	14.062
IKB Finance ‡	40	1992	5	15	101⅞	Orion Royal Bank	14.521
Credit Suisse Finance ‡	100	1992	5	14½	101⅞	CSFB	14.099
NEW ZEALAND DOLLARS							
GMAC Australia ‡	50	1990	3	18	101¼	Hambros Bank	17.430
D-MARKS							
Nat.Bank of Hungary ‡	200	1994	7	6¾	100¼	Dresdner Bank	6.704
Deutsche Bank Fin. ‡	300	1993	6	5½	100¼	Deutsche Bank	5.450
Christiania Bank ф‡	150	1992	5	5¼	115¾	Trinkaus & Burkhardt	2.031
Iceland ‡	125	1997	10	6½	100¾	WestLB	6.485
Den Danske Bank ‡	250	1993	6	5¾	100	Commerzbank	5.750
Hoogovens ‡	150	1992	5	6	99½	Deutsche Bank	6.119
Stars †‡	300	1998	9½	(d)	100	Morgan Guaranty	-
Nippon Tel. & Tel. ‡	300	1997	10	6⅛	100	Deutsche Bank	6.125
SWISS FRANCS							
ICN P'maceuticals (a)§‡	60	1997	-	3¼	100	Fintrabex	3.250
Nakanogumi Corp. **¶‡	30	1992	-	1¾	100	UBS	1.750
Misawa Homes Co. **¶‡	150	1992	-	1⅝	100	Crédit Suisse	1.625
Com. Nat. du Rhône **‡	61	1992	-	4¼	100½	Chemical NY Cap. Mkts	4.137
Dai-Ichi Hotel **§	50	1992	-	(1¼)	100	Swiss Volksbank	-
Tadano Ltd. **‡	30	1992	-	4¾	100¾	Swiss Volksbank	4.596
Nachi-Fujikoshi Corp. **‡	50	1992	-	4¾	100¾	UBS	4.596
Omron Tateisi Elec. **§	50	1992	-	(1¾)	-	SBS	
Shimadzu Corp. **§	70	1992	-	(1¾)	-	SBC	
Hessische Landesbank **‡	150	1997	-	4¾	100¾	Morgan Guaranty (Swiss)	4.670
Haka Industries **‡	15	1992	-	4¾	100	Bank Leu	4.625
Norsk Hydro **‡	100	1993	-	4½	100¼	Morgan Stanley	4.452
STERLING							
Stripes †‡	100	1995	6½	(e)	100	Morgan Guaranty	-
BNP ‡	50	1994	7	10	101⅞	Kleinwort Benson	9.645
DANISH KRONER							
Mortgage Bk Denmark ‡	500	1992	5	9	99¼	Privatbanken	10.989
LUXEMBOURG FRANCE							
Crédit Lyonnais **‡	300	1994	7	7½	100¼	Banque de l'Etat	7.453
YEN							
SNCF ‡	20bn	1993	6	4⅞	101½	LTCB Int.	4.583
World Bank ‡	50bn	1994	7	4⅞	101¾	Daiwa Europe	4.519
Tokyo Electric Pwr ‡	60bn	1992	5	4⅞	101½	Nomura Int.	4.515
OKB ‡	13bn	1993	6	5	102⅛	IBJ Int.	4.587
Eurofima ‡	20bn	1992	5	5½	104¼	Daiwa Eur., IBJ Int.	4.428
Chugoku Elec. Pwr ‡	15bn	1993	6	5	101⅞	Nomura Int.	4.707
CITIC (China) ‡	10bn	1992	5	(h)	101⅞	Yamaichi, Yasuda Tst (UK)	-
CNT ‡	20bn	1994	7	5½	102⅞	IBJ Int.	4.761
Royal Trustco ‡	10bn	1992	5	5	101¾	Nikko Secs., S'tomo Tst	4.589
Nippon Kokan KK ‡	35bn	1992	5	5	101¾	Nomura Int.	4.598
Ford Motor Cr. ‡	15.25bn	1992	5	5⅛	104¼	Yamaichi, Mitsui Tst	4.437

* Not yet priced. ‡ Final terms. ** Private placement. † Floating rate notes. ¶ With equity warrants. ф With currency warrants. § Convertible. ‖ Currency linked. (a) Double convertible. (b) Coupon: years 1 and 2 1⅝%, ... (c) ⅛ over 6m Libor. (d) ⅛ over 6m Libor first 5½ yrs, ¼ over 6m Libor remainder, secured by $1bn Denmark FRN due 1995. (e) 20bp over 3m Libor first 5½yrs, ¼ over 3m Libor remainder, secured by $1bn Denmark FRN due 1996. (f) Launched in US domestic market. (g) Retractable/adjustable, coupon 9⅛% first 8 yrs. Note: Yields are calculated on AIBD basis.

UK COMPANY NEWS

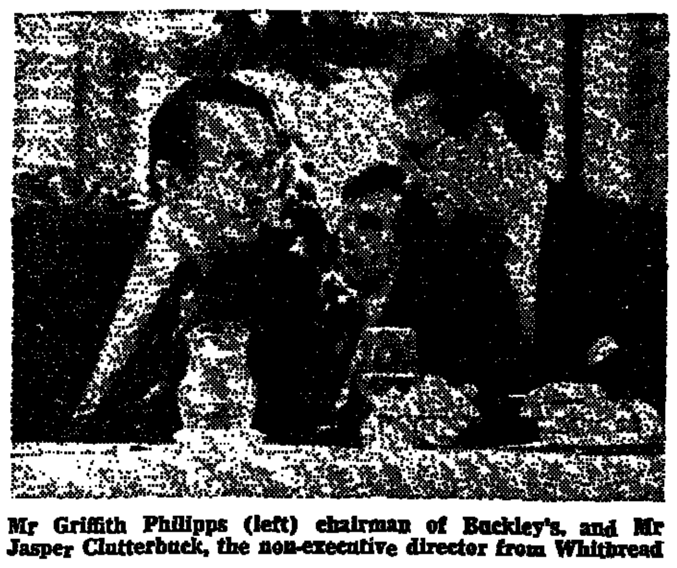
Nikki Tait on Whitbread's role at Wales-based Buckley's Brewery

Little harmony in the valleys

"THIS IS only round one," declared former stockbroker Tony Cole, as his attempt to clamber on to the board of small Welsh brewer, Buckley's, and oust incumbent Whitbread director, Jasper Clutterbuck, was resoundingly defeated by independent shareholders last Friday.

Reluctantly, his opponents agree. They estimate that Mr Cole, through the Bestwood group where he is chairman, has spent £5m building up his 27.6 per cent stake in Llanelli-based Buckley's and driven the price of its shares to a level where offloading would not be easy. At 144p, they stand on a multiple of 29 times 1985-86 earnings.

But what would normally be a tangled tale restricted to the Welsh valleys has suddenly grabbed wider notice thanks to the role played by national brewer, Whitbread.



Mr Griffith Philipps (left) chairman of Buckley's, and Mr Jasper Clutterbuck, the non-executive director from Whitbread

Having started with a 15.9 per cent stake itself—and with a further 6 per cent held by the Whitbread Investment Company (WIC) — the brewing giant has carefully matched Mr Cole's purchases since mid-December. Today, the two Whitbread holdings are also at the 27 per cent level.

That, in turn, has centered attention on the "Whitbread umbrella"—the policy by the brewer and Whitbread Investment of taking protective stakes in regional brewers. "Conflicts of interest exist between Whitbread and Buckley's," claims Mr Cole, threatening to submit detailed complaints about Whitbread's influence in the brewing industry to the Office of Fair Trading.

Mr Cole is not the only person concerned. Consumer group CAMRA has begun its own submission to the OFT—due by late-1987.

The "umbrella" dates back to the early fifties, when about 20 minority interests built up under Colonel Whitbread were transfered to Whitbread Investment, that company's shares were subsequently floated and subsidiary status disappeared.

Today, WIC has grown to a £170m investment trust; 49 per cent of its shares are still held by Whitbread and the directors have another 2 per cent. WIC, in turn, has just under 30 per cent of the votes in Whitbread.

Aside from Buckley's, WIC's largest stakes comprise Morland and Company, 44.1 per cent; Marston and Evershed, 3.19; Boddington Breweries 22.6; J. A. Devenish 17.1; Matthew Brown, 9.5; H. P. Bulmer, 5.5. There are smaller stakes in Hardys and Hansons, Greene King, Fuller Smith and Turner, Mansfield Brewery, Joseph Holt and Vaux.

Objections fall into two categories: first, the use made of Whitbread/WIC stakes in takeovers and, second, the impact of the national brewery, through boardroom representation, on the day-to-day running of umbrella companies' affairs.

It is on the first count that the recent controversy has centred. "Whitbread claims that it has a policy of always supporting the existing board," maintains CAMRA, "but its actions always seem to end up benefiting Whitbread."

Tony Cole is more pragmatic —he says that his OFT letter will argue that the Whitbread stakes should be barred from voting in contested situations.

The most recent case which Whitbread's opponents cite is the £34m bid for Davenports, a Birmingham-based brewer, launched by Wolverhampton and Dudley a year ago. Mr Charles Tidbury, a director of WIC, was also chairman of Davenports.

The predator was a rival Midlands brewer, which had lost an earlier offer for Davenports in 1983, during which WIC picked up a 6 per cent stake. Its return to the fray followed the sale of a key 10 per cent holding to WIC. In the event, a white knight in the form of Greenall Whitley stepped in and Wolves was rebuffed.

The board maintained that it simply took the better offer. Critics suggest that Wolves already had a formidable presence in the area and a combined group could have presented a greater challenge to Whitbread itself — Wolves had support from Davenports workers and it had promised to put 75,000 barrels of Harp lager brewing business through the Birmingham brewery. Greenall Whitney was heavily concentrated in the North-west.

Whitbread sticks to its stated policy. "We vote in support of the board concerned — they know the business best," says Jasper Clutterbuck. In fact, he argues, there is even an attempt to give independent shareholders the deciding vote — as at Buckley's where the Bestwood stake is effectively neutralised.

The question of day-to-day influence is every bit as thorny. If the Whitbread presence is simply protective — it is firmly opposed to bidding for any of the umbrella companies itself— why does it have a boardroom director on many of the umbrella companie's boards.

"It is a personal invitation," maintains Mr Clutterbuck. The same would go for his current directorship at Oxford brewer Morland, where he is due to become deputy chairman in April? "Yes, the same."

The boardroom presence would be less controversial were it not for the fact that umbrella companies — all of them, according to CAMRA — sell Whitbread products. Buckley's is a case in point: lager now accounts for about one-third of total beer sales and 70 per cent of these are either Heineken or Stella Artois, two Whitbread brands.

Mr Cole has pointed to the absence of lager brewing capacity at Buckley's; Mr Colin Thomas, Buckley's managing director, admits it is something the company is currently considering — "we will probably have to do it in a couple of years time." Yet the key decision, maintaining Mr Thomas, would be taken without Mr Clutterbuck being involved.

Indeed, the regional brewers do not take kindly to suggestions that the Whitbread presence in the board makes them puppets for the national brewer. "Whitbread regard him as an awkward sod," comments Mr Griffith Philipps, chairman of Buckleys, of Mr Thomas. "If you ask them, they'll say we've screwed them to the floor."

Quite why Mr Cole should wish to take on the might of Whitbread — other than as a negotiating tactic — remains unclear. His Bestwood group has no other brewing interests — apart from the stake in Belhaven which he sold on last year.

But the prospect of his continued niggling does nothing to encourage the Buckley's board. And with the OFT letter "ready and signed," according to Mr Cole — the Whitbread camp may scarcely be overjoyed either. Harmony, it seems, is unlikely to return to the Welsh valleys for a while yet.

BOARD MEETINGS

TODAY

Interims:—Astra Industrial, Ernest Green and Partners, Space Planning Services, Trade Promotions Services, Twesfontein United Collieries.

Finals:—Channel Islands and International Trust, Jebsens Drilling, Palma Group, Rights and Issues Investment Trust.

FUTURE DATES

Interims:—

Molins	Mar 26
Prestwich	Mar 10

Finals:—

BBA	Mar 10
Edinburgh Fund Man.	Mar 9
Hewtel Whiting	Mar 23
Hewitt (J.) and Son (Fenton)	Mar 11
Lambert Howarth	Mar 10
Pentos	Mar 10
Process Systems	Mar 16
Summit	Mar 23
Tribble Harris	Mar 3
Wickes	Mar 10

J. Jarvis returns to black at mid-year

J. Jarvis & Sons, the building company, has reported a return to the black and to dividend at the interim stage. Its pre-tax profits for the six months to September 30 were £226,000, compared with a loss of £184,000.

Mr Jack Rouillier, the acting finance director, has resigned. He was one of three outside directors brought in after some discreet institutional lobbying had expressed dissatisfaction with the company's progress under the previous, family-run board.

Mr David Beety, the chairman, is likely to make a statement about the post of finance director later this week.

Mr Harvey Bard, a London property investor who holds 27 per cent of the company, was defeated at the last annual meeting in his attempt to join the board.

After a set of disappointing results in the mid-1980s, Jarvis has been striving to cut back on its property development and concentrate on building contracting.

Following qualifications of the accounts relating to the value of work-in-progress in previous years, the directors have in these figures taken only a "prudent and realistic profit on those contracts which were substantially completed." They do not consider that the change in policy materially affects comparisons with past figures.

Operating profit was £314,000 (£23,000) on turnover of £16.38m (£10.72m). Net interest payable was £13,000 (£15,000). Earnings per share were 32.02p (loss 18.48p) and the interim dividend is 7p, after a year's absence. The single payment for 1985-86 was 10p.

Wilson Bowden offering over 18m shares at 130p each

BY TERRY POVEY

Wilson Bowden, one of Britain's largest privately owned housebuilders, publishes the prospectus today for an offer for sale which will take it on to the full market with a value of £86.7m.

The Leicester-based company is offering 37.5 per cent of its enlarged equity, or 18.35m shares, for sale at 130p. For 1986 the company has reported earnings per share of 10.2p on a pro-forma basis. Net tangible assets are given as 64p on the same basis.

Over the past five years, Wilson Bowden's pre-tax profits have risen from £3.5m to £8.33m on a turnover up from £24m to £65m.

The offer for sale, which is being sponsored by Schroders and to which the brokers are James Capel, will raise some £23.86m before expenses. Of this amount, £14.2m net of costs will go to the company and of the remaining £8.31m about 90 per cent will go to the family of Mr David Wilson, chairman and chief executive.

Applications for Wilson Bowden's shares will close on March 5 and dealings are expected to begin on March 12.

● **comment**

It looks like being a very strong results season for housebuilders — some of the largest jumps in share prices recently have been in this sector. Under such conditions a new entrant to the main market from housebuilding would seem guaranteed a good response — provided the advisors have not been overly enthusiastic in their pricing policy. On forecasts of £11.7m for this year, Wilson Bowden, at 130p, is coming to the market on a prospective multiple of 11½, just below Wilson Connolly and above the likes of Westbury and Ward Holdings. The strength of the aftermarket in the shares depends on whether or not investors will accept that the company deserves this rating. Wilson Bowden has had a compound growth rate of 21 per cent in recent years, which is good but not remarkable. The fortunes of other Wilson has, for example, achieved closer to 30 per cent. Schroders and James Capel may have left this one a bit too much of a hostage to the fortunes of the mood of the City on its first day of trading.

ICI loses on US asset sales

Imperial Chemical Industries, which last week included a £43m extraordinary charge in its 1986 results, has disclosed that this was to cover the net loss on the disposal of two petrochemical assets in the US.

It is selling its ethylene oxide, ethylene glycol and derivatives business, including a manufacturing plant in Texas, to the Houston-based Sterling Group.

Sterling is also acquiring Corpus Christi Petrochemical Company, a Houston-based manufacturer of olefins and aromatics, in which ICI has a 37.5 per cent interest.

Mr Harry Corless, chairman of ICI Americas, said the businesses no longer fitted with the group's long-term strategy, which was directed increasingly towards speciality markets.

Greenwich Cable profit and £0.88m purchase

INCREASED satellite sales by Greenwich Satellite and the success of the 1986 Bolshoi Ballet tour of the UK enabled Greenwich Cable Communications, to record a year-end profit for the first time since it made its debut on the USM in 1981.

The company, which operates cable TV, has also agreed to purchase Entertainment Corporation in a deal worth £880,000.

Greenwich reported that its £916,000 loss last time had been turned into an £18,000 pre-tax profit for the year to August 31 1986. During the same period, turnover rose substantially from £315,000 to £3.4m.

The directors said that the restructuring of the group, through the introduction of new trading entities, had had the effect of reducing staff levels and costs. They believed that the group was now in a position to take advantage of the benefits of the reorganisation and expected to be able to report substantially increased profit for 1987.

The vendors of Entertainment Corp, Ms Victoria Charlton and Mr Peter Brightman, would receive not more than 2m ordinary shares in Greenwich, of which 1m would be placed to repay borrowings. Both vendors would enter into three-year service contracts with the company and would be invited to join the Greenwich board.

Gresham House, the investment trust which took control of Greenwich in October 1985, would be purchasing 900,000 of the placed shares which would give it a revised holding of 3.7m (52.86 per cent) of the enlarged capital.

The directors also said that they felt it was now appropriate to institute a share option scheme for management and staff. They added that the group would be changing its name to Greenwich Communications.

Operating costs totalled £3.4m (£1.3m); the trading loss amounted to £13,800

Regalian £16m deal

BY TERRY POVEY

Regalian Properties has announced the £16m acquisition of the Bankside site, adjacent to Southwark Bridge in central London.

The riverside site has planning consent for 210,000 sq ft of office space and 96,000 sq ft of residential accommodation and is only a bridge's length away from the City.

Regalian, which specialises in urban renewal especially the refurbishment of former council estates, is financing the Bankside acquisition through a vendor placing of 9.19m shares, about 11 per cent of the group's enlarged equity.

Brokers de Zoete & Bevan have conditionally placed these shares at 175p. On Friday, Regalian's shares closed at 183p.

With over £400m worth of work in the pipeline the company in November made a £35m rights issue and its second one-for-one scrip issue within 12 months.

Since March 1986, Regalian has increased the number of its shares in issue from 11.94m to 84.12m.

FT Share Information

The following securities have been added to the Share Information Service: Gaynor (Section: Chemicals); Harmony Leisure (Hotels); Hoskyns (Electricals).

FINANCIAL TIMES STOCK INDICES

	Feb. 27	Feb. 26	Feb. 25	Feb. 24	Feb. 23	Feb. 20	1986/87 High	1986/87 Low	Since Compilation High	Since Compilation Low
Government Secs.	87.96	87.62	87.36	87.66	87.60	87.22	94.51	80.39	127.4	49.18
Fixed Interest	93.52	93.32	93.02	93.26	93.18	93.40	97.68	86.55	150.4	50.53
Ordinary	1599.8	1601.7	1584.9	1559.2	1556.9	1567.0	1601.7	1094.3	1601.7	49.4
Gold Mines	329.8	321.0	316.2	308.2	313.7	300.9	357.8	185.7	734.7	43.5
FT-Act All Share	983.12	982.89	979.61	968.28	965.86	974.35	983.12	664.42	983.12	61.92
FT-SE 100	1979.2	1980.2	1973.1	1946.8	1939.7	1961.5	1980.2	1370.1	1980.2	986.9

GRANVILLE SPONSORED SECURITIES

Capitalisatn. £000's	Company	Price	Change on week	Gross div.(p)	Yield %	P/E
5,422	Ass. Brit. Ind. Ord.	160	—	7.3	4.6	8.8
—	Ass. Brit. Ind. CULS	163	—	10.0	6.1	—
860	Armitage and Rhodes	34	−1	4.2	12.4	4.8
6,293	BBB Design Group (USM)	76	−2	1.4	1.8	18.1
70,402	Bardon Hill	219	+2	4.6	2.1	24.9
5,515	Bray Technologies	100	—	4.3	4.3	11.9
462	CCL Group Ordinary	132	+1	2.9	2.2	9.4
1,238	CCL Group 11pc Conv. Pref.	99	—	15.7	15.9	—
16,052	Carborundum Ordinary	267	−1	9.1	3.4	12.9
651	Carborundum 7.5pc Pref.	93	—	10.7	11.5	—
1,605	George Blair	87	−1	3.8	4.4	2.2
4,630	Ind. Precision Castings	114	—	6.7	5.9	10.2
9,719	Isis Group	122	+1	18.3	0.0	0.0
6,197	Jackson Group	119	—	6.1	5.1	8.1
50,570	James Burrough	361	+2	17.0	4.7	10.1
3,047	James Burrough 9pc Pref.	87xd	−4	12.9	14.8	—
57,703	Multihouse NV (AmstSE)	740	+30	—	—	38.8
8,096	Record Ridgway Ordinary	362	+1	—	—	6.3
2,241	Record Ridgway 10pc Pref.	83	—	14.1	17.0	—
908	Robert Jenkins	89	—	—	—	3.9
2,610	Scruttons	68	+1	—	—	—
3,612	Torday and Carlisle	148	—	5.7	3.9	9.0
1,489	Trevian Holdings	324	—	7.9	2.4	6.7
15,400	Unilock Holdings (SE)	77	+3	2.8	3.6	14.2
33,185	Walter Alexander	128	+1	5.0	3.9	12.2
4,581	W. S. Yeates	195	—	17.4	8.9	19.5
4,155	West Yorks Ind. Hosp (USM)	99	—	5.6	5.7	14.0

مكتبة من الأصل

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

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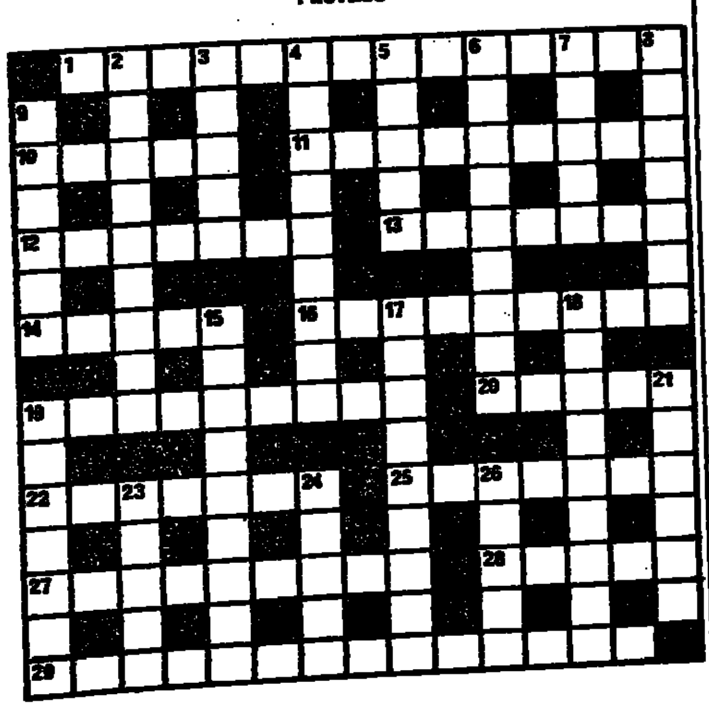
INSURANCES

[illegible]

FT CROSSWORD PUZZLE No. 6,266

PROTEUS



ACROSS

1 The panel that's concerned with the minutes? (5,9)
10 Such class is not down-at-heel (5)
11 Officers giving advice to the County (9)
12 Tar must be spread out in a layer (7)
13 Furniture seen backstage (7)
14 Broken hinge coming from stable door? (5)
16 Express through the pen, being ready for new job? (9)
19 Lady of the Lake (9)
20 Material to repair sails? (5)
22 Somehow rattle tin initially to get a little food (7)
25 One had quarters below (7)
27 Gold box artist put together can supply music (9)
28 It's not so sure against malaria, for example (5)
29 Needed just before opening (5,9)

DOWN

2 A society "somebody" takes one in with slander (9)
3 There's a measure of weight when one's in the trolley (5)
4 3's with a man, at sea in sailing vessel (9)
5 Was gloomy in a sort of cycle (5)
6 What's in R.E. perhaps, having been knocked about (2,3,4)
7 Clusters of titled undergrads (5)
8 Made certain rudeness is cut down and put out (7)
9 Scientist connected with gas (6)
15 They're very accommodating (9)
17 Crawler not frightened by a bark (4,5)
18 Evidence of the good old days? (9)
19 Animal crossing part of London (7)
21 One with a flat character? (6)
23 Preliminary inspection of grounds for Church (5)
24 It goes up with the tax (5)
26 Scout car (5)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

AUTHORISED UNIT TRUST & INSURANCES

Cannon Assurance Ltd
1 Olympic Way, Wembley HA9 0NB 01-902 8876

2nd Series Life Accumulation				
Equity	379.0	401.1	+1.4	—
High Income	324.0	343.8	+1.0	—
Property	217.4	230.1		—
Managed 2	95.5	101.1		—
Managed	364.4	385.1	+0.4	—
Managed 4	98.2	103.9	+0.9	—
Deposit	178.0	188.4		—
Gilt	186.3	197.1	+0.2	—
American	275.7	291.7	-0.2	—
International Money	199.0	210.6	+0.2	—
Far East	217.0	229.6	+1.5	—
Global	108.1	114.4	-0.1	—
European	109.3	115.7	+0.4	—
Japan	114.7	121.4	+1.0	—
Heritage Property	98.3	104.0	+1.2	—
2nd Series Pension Accumulation				
Equity	608.0	644.2	+2.4	—
High Income	389.5	412.5	+1.4	—
Property	305.9	323.7		—
Managed 2	95.5	101.1		—
Managed	392.2	415.0	+0.7	—
Managed 4	98.6	104.3	+1.0	—
Deposit	265.4	280.8		
Gilt	263.0	278.3	-0.6	—
American	438.0	463.5	-0.3	—
International Money	286.0	302.6	+0.3	—
Far East	240.4	254.4	+1.8	—
Global	111.7	118.2	-0.1	—
European	113.2	119.8	+0.3	—
Japan	120.2	127.2	+1.2	—
Heritage Property	99.7	105.5	+1.7	—
Other Funds				
Equity Units		83.68	+0.30	—
Property Units		22.96		—
Balanced Bond/Exec	37.97	40.18	+0.06	—

City of Edinburgh Life Assurance
46 Charlotte Sq, Edinburgh EH2 4HQ 031-225 1655

Ivory & Sime Bond	121.0	128.0		—
Risk & Reward Bond	159.0	168.0		—
Murray Johnstone Fd	135.0	143.0		—
Money Market Fd	111.0	117.0		—
Investment Strategy Fd	100.0	106.0		—
Ivory & Sime Pens Fd	123.0	130.0		—
Risk & Reward Pens Fd	141.0	149.0	+5.0	—
Murray J'stone Pens Fd	133.0	140.0		—
Money Market Pens Fd	111.0	117.0		—
Inv Strategy Pens Fnd	101.0	107.0		—

City of Westminster Assurance

Devonshire Life—Contd.

Money	100.9	106.3		—
Pen Managed	143.0	150.6	-0.3	—
Pen World Growth	109.1	115.0	-0.4	—
Pen UK Equity	159.5	168.0	-0.8	—
Pen UK Small Cos	144.0	151.7	+0.9	—
Pen European	101.3	106.7	+0.1	—
Pen Far Eastern	256.8	270.5	-0.7	—
Pen Nth American	99.4	104.7	-0.7	—
Pen Fixed Interest	114.2	120.3	+0.5	—
Pen Index Lnkd Stks	109.4	115.2	-0.1	—
Pen Money	106.0	111.7		—

Eagle Star Insurance Co Ltd
Bath Road, Cheltenham GL53 7LQ 0242 521 311

Secure Fund	104.9	110.5	+0.1	—
Blue Chip Fund	141.5	149.0	-0.2	—
Performance Fund	168.0	176.9		—
Adventurous Fund	160.7	169.2	-0.1	—
Pensions Secure	96.4	101.5		—
Pensions Blue Chip	109.5	115.3	-0.1	—
Pensions Performance	108.9	114.7	-0.1	—
Pensions Adventurous	108.1	113.8		—
Pensions With Profits	102.3	107.7	+0.2	—

Eagle Star Insur./Midland Assur.
1 Threadneedle St, London EC2 01-588 1212

Eagle/Mid. Units	189.3	196.2	+0.1	3.75

Equitable Life Assurance Society
4 Coleman Street, London EC2R 5AP 01-606 6611

Far Eastern	184.2	193.9	+0.7	—
Fd of Inv Tsts	155.3	163.5		—
Gilt & Fixed Int	118.9	125.2	+0.4	—
High Income	172.5	181.6	+0.1	—
Intnl Growth	115.7	121.8		—
Managed	141.7	149.2	+0.1	—
Money	109.7	115.5		—
North American	128.9	135.7	+0.2	—
Pelican	164.7	173.4	+0.1	—
Property	108.8	114.5	-0.2	—
Special Sits	172.7	181.8	-0.3	—
School Fee Managed	157.1	165.4	+0.2	—
Pension Funds				
Far Eastern	212.1	223.3	+1.0	—
Fd. of Inv. Tsts	173.0	182.1		—
Gilt & Fixed Int	124.4	130.9	+0.5	—
High Income	199.6	210.1	+0.2	—
International Growth	120.8	127.2		—
Managed	157.1	165.4	+0.2	—
Money	119.8	126.1		—

Royal Heritage Life Assur.—Contd.

Hong Kong	104.5	110.1	-0.7	—
Aust Growth	127.9	134.7	+1.1	—
European Perf.	98.8	104.0		—
Cartmore Funds—Series A				
American	163.8	172.5	+0.5	—
Australian	118.2	124.5	+1.8	—
British	199.2	209.7	+1.1	—
Commodity	148.2	156.0	+0.7	—
European	144.0	151.6	-1.8	—
Extra Inc	191.8	201.9	+1.1	—
Far East	260.0	273.7	+0.1	—
Intl Fixed Interest	89.8	94.6	-0.4	—
Global Strtgy	333.7	351.3	+1.4	—
Gold Share	64.8	68.1	+1.7	—
Hedged American	125.0	131.6	-0.6	—
High Inc	218.7	230.3	+1.0	—
Hong Kong	118.5	124.8	-3.1	—
Income	302.7	318.7	+2.8	—
Japan	293.4	308.9	-4.9	—
Oil & Energy	122.8	129.3	+0.4	—
Special Sits	277.6	292.3	+4.7	—

Shield Assurance Ltd
40 Uxbridge Rd, W5 2BS 01-567 0700

Shield Life Mngd	102.4	108.0		—
Shield Pension Mngd	104.1	109.8		—

Skandia Life Assurance Co Ltd
Frobisher Hse, Nelson Gte, Southampton 0703 334412

Skandia Life Funds				
Managed Fd.	247.6	260.6	+1.5	—
Equity Fd.	273.8	288.2	+2.0	—
International Fd.	267.9	281.9	+1.3	—
Gilt Plus Fd.	181.9	191.4		—
Property Fd.	158.1	166.4	+0.1	—
Deposit Fd.	161.8	170.3	+0.1	—
North American Fd.	128.8	135.5	+0.7	—
North European Fd.	218.5	230.0	+0.6	—
Int. Recovery Fd.	175.2	184.4	+1.0	—
Pacific Fd.	188.1	197.9	+1.8	—
Skandia Fidelity Funds				
American	104.5	109.9	+0.2	—
American Equity Inc	104.0	110.3	-0.2	—
American Special Sits	102.6	107.9		—
Australia	110.4	116.2	-0.7	—

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Target Life Assurance Co. Ltd.

Target House, Gatehouse Road, Aylesbury, Bucks

Aylesbury (0296) 394000

Managed	442.6	465.9	-0.3	
Property	264.8	278.8		
Fixed Int.	164.0	172.7	+0.7	
UK Equity	551.2	580.3	+2.1	
Int. Equity	351.5	370.1	+0.6	
Deposit	158.6	167.0		
Managed Property	249.6	262.8	-0.6	—
American Eagle	118.5	124.8	-0.3	—
Technology	111.8	117.9	-1.6	—
Worldwide Income	181.0	190.6	-0.3	—
Pacific	191.1	200.2	+1.4	—
Australian	94.9	99.9	+0.2	—
Japan	302.1	318.0	+0.6	—
Commodity	114.0	120.0	+1.5	—
Gold	149.7	157.6	+3.9	—
Financial	213.1	224.4	-1.5	—
Income	248.6	261.5	+0.9	—
Special Situations	241.7	254.0	-1.1	—
Preference	141.6	149.1		—
Managed Currency	95.4	100.5	+0.3	—
European Spec. Sits.	201.8	212.5	+1.0	—
Sterling	10.3			—
Residential Property	99.1	104.4		—
Pension Funds				
Managed Pension	1,350.7	1,421.8	-3.0	—
Gilt Pens.	362.9	382.1	+1.3	—
Property Pens.	700.4	737.3	-1.1	—
Equity Pens.	674.9	710.5	-5.5	—
Index-L. Plus	129.9	136.8	+1.7	—
Guar. Pens.	262.2	276.0	+1	—
Leicester Retirement	161.4	169.9		—

Prices quoted are for Accumulation units

Teachers' Assurance Company Ltd

12 Christchurch Rd, B'mouth BH1 3LW 0202 291111

Managed Fund	188.4	198.3		—
Gilt & Fixed Int Fd	137.7	144.9		—
Cash Fund	124.4	131.0		—

Transatlantic Life Assur Co Ltd

8 New Rd, Chatham, Kent Medway 812348

LACOP Units	517.65	18.53		—

The Porchester Group

91 Wimpole Street, London W1M 7DA 01-493 9090

Porchester Managed Funds				
Albany (z)	120.8	127.1	+0.5	
Cornhill (z)	105.5	111.5		
Irish Life (z)	115.2	121.4		
Royal Heritage (z)	106.0	111.6	+1.4	
Schroder (z)	101.6	106.9	+0.4	
Skandia (z)	122.6	129.0	+0.6	
Target (z)	125.9	132.4	+0.8	—
Trident (z)	118.8	125.1	+0.2	—
Porchester Managed Pension Funds				
Albany (z)	133.9	140.3	+0.8	—
Schroder (z)	99.9	105.1	+0.1	—
Skandia (z)	129.9	136.7	+0.7	—
Target (z)	117.2	123.4	+0.1	—

Managed by Porchester Securities Limited

Sharp (Albert E.) & Co

12 Newhall Street, Birmingham B3 3ER 021-236 5801

Man-Clerical Med	125.6	132.3	-0.7	—
Pens. Man-Schroder	504.5	531.0	+4.1	—

Towry Law & Co

57 High St, Windsor, SL4 1LX 0753 868244

Clerical & Medical (z)	106.4	112.0	+0.9	—
Guardian Royal Exch	102.7	108.2	+1.5	—
M&G Ass (Life)	117.8	123.8		—
M & G Ass (Pens)	136.6	143.4		—
Norwich Union Aust Mgt.	55.3	58.3	-0.1	—
Royal Life (UniLinkAss)	108.6	114.3	+1.5	—
Scot Equitable (Life)	152.5	160.9		—
Scott Equitable (Pens)	104.6	110.1		—
Scot Mutual (Life)	158.4	166.8	+1.3	—
Scot. Mutual (Pens)	144.1	151.7	+1.1	—
Vanbrugh Life Ass.	121.9	128.4		—

J. D. Ward & Co Ltd

55 Lincoln's Inn Fields, WC2A 3LX. 01-242 2265

Target Mngd Bond	192.5	202.7	+0.2	—
Target Mngd Pension	128.2	135.0	+0.3	—
Albany Mngd Bond	165.8	174.5	+2.2	—
Albany Mngd Pension	210.9	222.0	+2.9	—

Yorkshire & Lancashire Investment Mgt.

OFFSHORE AND OVERSEAS

MANAGEMENT SERVICES

INSURANCE, OVERSEAS & MONEY FUNDS

World Wide Growth Management◊

10a, Boulevard Royal, Luxembourg

Worldwide Gth Fd	$18.69			—

Inv. Adv.: M & G. Inv Mngt., Ltd, London

Yamaichi Capital Mngt (Guernsey) Ltd

22 South St, St Peter Port, Guernsey. 0481 23765

Japan Warta Growth	11.17			—

Yamaichi Dynamic Mngt Co SA

10A Boulevard Royal, Luxembourg

Advanced Tech	$18.68			—
Dynamic Gwth Fd	$21.69			—

Zero Bond Fund Limited

PO Box 208, St Peter Port, Guernsey 0481 26268

Zero Bond Fund	$12.45	13.15		—

Money Market Trust Funds

	Gross	Net	Gr Equiv CAR	Int Cr
Charities Aid Fndtn Money Mngmt Co Ltd				
Staple Hall, Stone Ct, Houndsditch, EC3 01-283 6461				
CAFCASH Call Fund	10.92	8.76	12.00	3-mth
CAFCASH 7-day Fund	10.94	8.18	12.03	11.71
The Charities Deposit Fund				
2 Fore Street, London EC2Y 5AQ 01-588 1815				
Deposit	10.80 (11.25CAR)			3-Mth
The Money Market Trust				
63 Qu Victoria St, EC4N 4ST. 01-236 0952				
Call Fund	10.97	8.20	11.84	6mth
7-day Fnd	10.76	8.05	11.61	6mth
Oppenheimer Money Management Ltd				
66 Cannon St, EC4N 6AE. 01-236 1425				
Call Fnd	10.96	8.19	11.77	6-Mth
7-day Fund	10.78	8.06	11.58	6-Mth
Dollar	4.69	3.51	5.01	6-Mth

Money Market Bank Accounts

	Gross	Net	Gr Equiv CAR	Int Cr
Adam & Co. plc				
22 Charlotte Sq, Edinburgh EH2 4DF 031-225 8484				
Full Service Chq Acc	10.25	7.50	10.80	Qtr
Aitken Hume				
30 City Road, EC1Y 2AY. 01-638 6070				
Treasury Acc	10.25	7.66	11.30	Qtr
UnitedChq £1000-£5000	10.00	7.48	10.90	Mth
Mth. Int. Chq. £5,000+	10.25	7.66	11.18	Mth
Allied Arab Bank Ltd				
97-101 Cannon St, London, EC4N 5AD 01-626 2046				
HICA, HICMA	11.25	8.41	12.31	Mth
Bank of Scotland				
38 Threadneedle St, EC2P 2EH. 01-628 8060				
Money Mkt Cheque Acc	10.25	7.66	11.18	Mth
Barclays Prime Account				
PO Box 125, Northampton 0604 252891				
High Int. Cheque	10.00	7.50	10.86	Qtr
Benchmark Trust Ltd				

rate. Int Cr: frequency interest credited.

NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % (shown in last column) allow for all buying expenses. Prices of certain older insurance linked plans subject to capital gains tax on sales. a Offered prices include all expenses. b Today's prices. c Yield based on offer price. d Estimated. g Today's opening price. h Distribution free of UK taxes. p Periodic premium insurance plans. s Single premium insurance. x Offered price includes all expenses except agent's commission. y Offered price includes all expenses if bought through managers. z Previous day's price. ¶ Guernsey gross. # Suspended. ◆ Yield before Jersey tax. † Ex-subdivision. ‡‡ Only available to charitable bodies. ◊ Yield column shows annualised rates of NAV increase. xd ex dividend.

TRADITIONAL OPTIONS

3-month call rates

Industrials	p		p
Allied-Lyons	35	NEI	8
Amstrad	16	Nat West Bk	56
BAT	47	P & O Dfd	55
BOC Grp	42	Plessey	20
BSR	12	Polly Peck	20
BTR	30	Racal Elect	20
Babcock	19	RHM	30
Barclays	47	Rank Org Ord	55
Beecham	48	Reed Intnl	42
Blue Circle	62	STC	20
Boots	25	Sears	12
Bowaters	37	TI	55
Brit Aerospace	58	TSB	8
Brit. Telecom	20	Tesco	42
Burton Ord	23	Thorn EMI	50
Cadburys	22	Trust Houses	20
Charter Cons.	30	Turner Newall	24
Comm Union	29	Unilever	150
Courtaulds	35	Vickers	55
FNFC	20	Wellcome	50
Gen Accident	80	**Property**	
Gen Electric	18	Brit Land	17
Glaxo	120	Land Securities	38
Grand Met	40	MEPC	32
GUS 'A'	100	Peachey	30
Guardian	85	**Oils**	
GKN	38	BOM	3½
Hanson Tst.	15	Brit Petroleum	68
Hawker Sidd.	50	Burmah Oil	38
ICI	80	Charterhall	4
Jaguar	52	Premier	4
Ladbroke	40	Shell	75
Legal & Gen	25	Tricentrol	11
Lex Service	35	Ultramar	17
Lloyds Bank	48	**Mines**	
Lucas Inds	55	Cons Gold	65
Marks & Spencer	18	Lonrho	24
Midland Bk	55	Rio T Zinc	65
Morgan Grenfell	35		

A selection of Options traded is given on the London Stock Exchange Report Page.

LONDON SHARE SERVICE

BRITISH FUNDS

Interest Due		Stock	Price £	Last xd	Yield Int.	Yield Red.
"Shorts" (Lives up to Five Years)						
6Oct	6Apr	Exch. 10½pc 1987	99[illegible]	1.9	10.51	10.85
1 Nov	1 May	Funding 6½pc 85-87	99[illegible]	25.9	6.54	9.74
12Dec	12Jne	Treas. 10pc 1987	99[illegible]	18.12	10.02	10.40
14Jan	14Jly	Treas 3pc 1987	98[illegible]	8.12	3.04	6.76
3May	3Nov	Treas. 12pc 1987	101[illegible]	29.9	11.85	9.98
26 Jul	26 Jan	Treas 7¾pc 1985-88‡‡	98[illegible]	22.12	7.87	9.47
10Nov	10May	Exch 10½pc '88	100[illegible]	6.10	10.43	9.83
14Dec	14Jne	Treas 9¾pc Cv '88	99[illegible]	18.12	9.77	9.85
1Jan	1Jul	Transport 3pc '78-88	95[illegible]	25.11	3.15	6.78
25 Apr	25 Oct	Treas. 9½pc '88	99[illegible]	18.9	9.56	9.86
22 Aug	22 Feb	Treas 11½pc 1989	102[illegible]	16.1	11.18	9.83
18 Oct	18 Apr	Treas 9½pc Cnv 1989	99[illegible]	11.9	9.57	9.88
15Nov	15May	Treas 3pc 1989	91[illegible]	9.10	3.27	7.14
14Dec	14Jun	Treas 10½pc 1989	101[illegible]	18.12	10.37	9.85
1Feb	1Aug	Exch 10pc 1989	100[illegible]	29.12	9.97	9.86
29 Mar	29 Sep	Exch 11pc 1989	102[illegible]	26.8	10.72	9.82
15 Apr	15 Oct	Treas 5pc 1986-89	92[illegible]	8.9	5.41	8.25
15 May	15 Nov	Exch 10¼pcCv '89	102[illegible]	9.10	9.94	8.91
15 Jul	15 Jan	Treas 13pc 1990‡‡	108[illegible]	9.12	12.02	9.66
12 Aug	12 Feb	Exch 11pc 1990‡‡	103[illegible]	6.1	10.66	9.72
22 Sep	22 Mar	Exch. 12½pc 1990	107[illegible]	18.8	11.67	9.73
8 Nov	8 May	Treas. 3pc 1990	88[illegible]	2.10	3.41	7.29
15 Dec	15 Jun	Treas 8¼pc 1987-90‡‡	97[illegible]	18.12	8.48	9.20
25 Apr	25 Oct	Treas. 10pcCv 1990	100[illegible]	18.9	9.94	9.77
22 May	22 Nov	Exch 2½pc 1990	85[illegible]	16.10	2.94	7.11
10 July	10 Jan	Treas 11¾pc 1991	106[illegible]	4.12	11.05	9.72
[illegible]						

Five to Fifteen Years

[illegible]

Over Fifteen Years

[illegible]

Undated

[illegible]

Index-Linked

[illegible]

INT. BANK AND O'SEAS GOVT STERLING ISSUES

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Building Societies

[illegible]

Public Board and Ind.

[illegible]

Financial

[illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

[illegible]

AMERICANS—Cont.

[illegible]

CANADIANS

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS—Cont

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY & STORES—Cont.

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Continued

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS—Continued

[illegible]

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INDUSTRIALS—Continued

LEISURE—Continued

PROPERTY—Continued

INVESTMENT TRUSTS—Cont.

FINANCE, LAND—Cont.

MINES—Continued

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

Tins

Miscellaneous

THIRD MARKET

OIL AND GAS

MOTORS, AIRCRAFT TRADES

Motors and Cycles

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

Finance, Land, etc

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

INSURANCES

PROPERTY

LEISURE

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 29 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock".
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ♦ Figures or report awaited.
- ♥ Not officially UK listed; dealings permitted under Rule 535(4)(a).
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Dealt in under Rule 535(3).
- ¢ Price at time of suspension.
- § Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress.
- ♦ Not comparable.
- ♦ Same interim: reduced final and/or reduced earnings indicated.
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ¶ No par value.

B.Fr. Belgian Francs. Fr. French Francs. ¶¶ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1986-87. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1985-86. N Dividend and yield based on prospectus or other official estimates for 1985. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date. Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p	74	......
Craig & Rose £1	£14¾	......
Finlay Pkg. 5p	65	......
Holt (Jos) 25p	860	......
IoM Stm. £1	78	......

IRISH

Fund 11¼% 1988	£97⅝	......
Nat. 9¾% 84/89	£93¾	......
Fin. 13% 97/02	£101¼	......
Arnotts	360	......
CPI Hldgs	57	+2
Carrol Inds.	138	......
Dublin Gas	10	......
Hall (R. & H.)	106	......
Helton Hldgs.	32	−1
Irish Ropes	185	......
Unidare	375	......

BUILDING CONTRACTS

National Gallery extension progresses

BY JOAN GRAY, CONSTRUCTION CORRESPONDENT

Sir Robert McAlpine has been appointed construction manager for the £25m National Gallery extension to be built in Trafalgar Square.

The extension—which is being funded as a gift by the Sainsbury brothers—is needed to house the gallery's collection of early Renaissance paintings.

It will also provide extra temporary exhibition space, a restaurant, shop and new lecture theatre.

The contractor will now work with the architect, Mr Robert Venturi, of the US partnership Venturi, Rauch and Scott Brown, and consultant engineers Ove Arup, on the final design of the building.

Mr Venturi was appointed last year following fierce public criticism of the building designed by the gallery's first choice of architect, Ahrends Burton and Koralek.

This was the building described by Prince Charles as a "monstrous carbuncle on the face of a much loved friend" and subsequently refused planning permission.

Mr Venturi is now working on a brief described by the trustees as "relating sympathetically to the present building with an architectural distinction worthy of the site and with an interior of the highest standard."

It is this new sympathetic design on which the companies will now be working on structural and building arrangements.

Details will not be announced for several more weeks until the design is finalised and the trustees are certain they have reached an acceptable solution.

But the building is expected to be of around 20,000 sq feet and will be the same height as the existing gallery, without any of the towers or other startling features that raised such protests last time.

The major technical problems in designing the extension are in the deep basement storage areas required and the need to work on the restricted Hampton site next to the gallery, by one of London's busiest traffic routes.

McAlpine was chosen from a selected list of management contractors on the basis of its team approach to design.

Mr Robert Venturi

Ghana hotel development

A £7.5m contract has been awarded to **FOUGEROLLE INTERNATIONAL** of Paris for construction of a 200-bedroom international hotel for Accra City Hotels. On site works are being undertaken by a joint venture formed between Fougerolle and **TAYSEC CONSTRUCTION**, a Ghanaian related company of Taylor Woodrow International.

Taysec is leading on the reinforced concrete structural elements of the buildings, which will have a combination of curtain walling and tile external cladding with aluminium framed windows. The bedrooms will be in a seven-storey block and public rooms in an adjacent single-storey area.

Overall project management will be undertaken by Fougerolle, inclding all services and finishing works which will be carried out generally by French-based subcontractors.

The project has started, with completion scheduled for June 1988.

Four-level Chippenham leisure centre

WIMPEY CONSTRUCTION UK has been awarded contracts in the public and private sectors totalling more than £6m.

Work has just commenced on the Chippenham Leisure Centre, Monkton Park, Chippenham, Wiltshire. The £3.77m contract was awarded by Morgan Grenfell (Local Authority Finance), for the North Wiltshire District Council, and the centre will be constructed on four levels, to include a swimming pool, squash courts, external hard play areas, dry ski slopes and ski hut, and a footbridge across the River Avon.

Due for completion in September 1988, the building will have a structural steel frame, built on piled foundations supporting reinforced concrete floors and a tiled pitched roof on steel trusses. External cavity walls comprise a reconstructed bathstone outer skin and a brick inner skin. Wall finishes are to comprise facing bricks with tiling to wet areas, and plaster to squash courts, and floor finishes will include woodblock to sports and studio halls, tiling to pool and wet areas and carpets. It will be equipped with a sauna cabin, pool filtration, public address systems and fire alarms, and a computerised control centre for pool features.

Wimpey has won a contract valued at £3.32m from Transfleet Services for a retail transit store with offices at the Matford Business Park in Exeter. The development, of 12,000 sq metres floor area, is due for completion in July. It is to be a frame structure with cladding of fibreglass insulation and an underpurlin lining, a colour-coated steel sheeting roof, and built on mass concrete foundations. Included are the mechanical and electrical installations, together with car-parking and landscaping.

Windows for the RAF

CRITTALL WINDOWS, part of the Norcros group, has gained two contracts involving RAF stations. The larger, worth nearly £700,000, is for refurbishment of officers' and airmen's housing at RAF Cranwell, Lincs. Here the company will supply Homelight double-glazed steel windows. Nearly £117,000 worth of the company's aluminium windows will be installed at RAF Leeming in Yorkshire.

£16m orders for Cruden

Warrington-based contractor **CRUDEN CONSTRUCTION** has increased its order books by more than £16m. New-build commercial and industrial work takes the largest share, and includes a £1.85m contract to build a leisure centre complex in Widnes, Lancashire, for Halton Borough Council, and a £1.5m holiday centre for the disabled, in Southport, Lancashire, for the Winged Fellowship Trust. In Manchester, a £792,000 five-storey student accommodation block for the University of Manchester has been secured, together with the contract to build a £791,000 diagnostic unit at Northwich, Cheshire, for ICI.

Refurbishment contracts total more than £3m on a 564 unit contract at Brookvale, Runcorn, for the Warrington-Runcorn Development Corporation, and a £191,000 project to refurbish the offices and shops at the British Shoe Corporation in Liverpool city centre.

In Wokingham, Berkshire, a £1.3m sheltered bungalow and flats scheme for joint-developers Retirement Securities and the Nationwide Housing Trust has also been secured, while in Liverpool, public housing projects include three to build and refurbish more than 90 units totalling £3.6m.

Cruden's mechanical services division has been successful in securing a number of awards, including the £30,000 School of Tropical Medicine project in Liverpool; an £85,000 heating and plumbing installation at Vicar's Cross, Chester, for the Grosvenor Housing Association, and a £171,000 domestic heating project in Toxteth, Liverpool, for the Liverpool Housing Trust.

Rebuilding Heart Hospital

PMI is project manager for the Special Health Authority which has accepted an £18m joint venture tender from Taylor Woodrow and Taymech for the first phase of the rebuilding of the Brompton and National Heart Hospital in Sydney Street, Chelsea. Construction starts today.

The six-storey 23,000 sq metre building will contain adult and children's medical and surgical beds, intensive care and high-dependency beds, operating theatres, pathology laboratories and central kitchens. It is scheduled for completion in August 1989.

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except where the forthcoming board meetings (indicated thus*) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

AMEC ...April 2	Final	7.0
Abbey Life ...April 2	Final	4.7
*Anglo American Gold ...Mar 5	Final	825c
*Armstrong Equipment ...Mar 23	Interim	0.75
Assoc Brit Ports ...April 2	Final	6.75
*BAT Inds ...Mar 25	Final	7.35
*BICC ...Mar 25	Final	7.5
*BSG Intl ...April 2	Final	due
BTR ...Mar 12	Final	5.0
Babcock Intl ...Mar 26	Final	4.3
Barratt Developments ...Mar 20	Interim	3.254
*Bejam ...Mar 11	Interim	2.0
Berisford (S. and W.) Feb 24	Final	7.0
Booker ...Mar 25	Final	7.75
*Brent Chems ...Mar 23	Final	3.35
Bridon ...Mar 26	Final	3.5
British Aerospace ...Mar 25	Final	10.0
British Car Auction ...Mar 25	Interim	1.5
*British Vita ...Mar 5	Final	3.75
*Britoil ...Mar 20	Final	9.0
*Bryant Holdings ...Mar 3	Interim	1.2
Burton ...April 3	Interim	1.8
*Commercial Union ...Mar 4	Final	6.85
*Cons Gold Fields ...Mar 4	Interim	8.5
Croda Intl ...Mar 27	Final	4.0
DRG ...Mar 19	Final	4.95
Dalgety ...Mar 21	Final	4.15
De Beers ...Mar 11	Final	40c
Enterprise Oil April 3	Final	5.0
Exco ...Mar 21	Final	2.6
Expamet International ...Mar 18	Final	5.0
Fisons ...Mar 4	Final	3.34
GRE ...April 2	Final	13.75
*General Accident ...Mar 4	Final	14.0
General Mining ...Mar 12	Final	140c
Glynwed ...Mar 21	Final	4.0
Guest Keen ...Mar 12	Final	7.5
Hepworth Ceramic ...Mar 19	Final	4.3
Hickson Int ...Mar 24	Final	10.0
Hillsdown ...Mar 11	Final	3.0
*Hongkong Shanghai Bk ...Mar 10	Final	30.31
Horizon Travel ...Mar 26	Final	3.52
*Iceland Frozen Foods ...Mar 25	Final	4.4
*Jaguar ...Mar 5	Final	due
Legal and General ...Mar 20	Final	16.0
Lucas Inds ...Mar 26	Interim	2.6
London Scott Marine Oil ...Mar 25	Final	7.7
*Midland Bank Mar 4	Final	14.5
Ocean Trans April 2	Final	3.85
P & O ...Mar 25	Final	10.0
*Prudential ...Mar 24	Final	17.0
Reckitt & Colman ...April 3	Final	10.0
Rowntree Mackintosh ...Mar 13	Final	8.2
Scottish Heritable ...April 2	Final	1.6
*Shell ...Mar 5	Final	22.5
*Sime Darby ...Mar 27	Interim	due
Slough Estates ...April 1	Final	3.3
Smith and Nephew ...Mar 20	Final	3.25
Spring Ram ...Mar 24	Final	1.21
Standard Chartered ...Mar 25	Final	20.0
Steetley ...Mar 24	Final	8.0
Sun Alliance ...April 2	Final	11.75
*TI ...Mar 5	Final	5.0
*Transport Dev Mar 16	Final	4.5
Tricentrol ...Mar 26	Final	1.0
*Turner and Newall ...Mar 18	Final	3.65
*Ultramar ...Mar 11	Final	6.5
*Unilever ...Mar 3	Final	27.05
*Utd Biscuits ...Mar 18	Final	4.04
Weir Group April 3	Final	2.125
*Whitbread Holdings ...Mar 19	Final	8.0
Wimpey (G.) ...Mar 24	Final	2.9
Woolworth ...Mar 26	Final	4.0

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

Company Notice

BANQUE NATIONALE DE PARIS

Ecu 100,000,000 FRN due 1996

Notice is hereby given that for the period from February 27th, 1987 to May 27th, 1987 the Notes will carry an interest rate of 7.4375 per cent per annum. The interest payable on each Ecu 10,000 Note on the relevant interest payment date May 27th, 1987 will be Ecu 183.87.

The Principal Paying Agent
BANQUE NATIONALE DE PARIS (LUXEMBOURG) SA

WORLD STOCK MARKETS

AUSTRIA

1986/87 High	Low	Feb. 27	Price Sch
2,650	1,990	Credit'nst'lt pp	2,010
3,850	2,950	Goesser	3,010
16,000	12,700	Interunfall	12,900
21,750	9,120	Jungbunzlauer	9,380
2,475	1,940	Laenderbank	1,940
795	560	Perlmooser	669
311	140	Steyr Daimler	148
12,50	850	Veitscher Mag	944

BELGIUM/LUXEMBOURG

1986/87 High	Low	Feb. 27	Price Frs.
3,500	2,290	B.B.L.	2,955
15,550	9,600	Banq. Gen. Lux.	15,550
17,000	9,400	Banq. Int.A.Lux.	15,200
14,500	8,250	Bekaert	9,470
4,650	2,640	Ciment CBR	4,410
195	120	Cockerill	140
3,240	1,552	Delhaize	3,050
5,410	3,580	EBES	5,240
2,700	1,680	Fabrique Nat.	2,930
1,085	358	GB Inno BM	1,085
4,525	2,695	GBL (Brux)	3,555
6,800	4,310	Generale Bank	6,300
6,850	4,750	Gevaert	6,260
8,150	5,700	Hoboken	7,200
4,500	2,880	Intercom	4,255
4,450	2,430	Kredietbank	4,150
11,650	8,900	Pan Holding	11,200
9,980	6,060	Petrofina	9,980
29,488	17,300	Royale Belge	24,474
3,600	2,120	Soc. Gen. Belge	3,350
13,400	7,710	Sofina	12,850
9,270	6,050	Solvay	9,250
585	185	Stanwick Intl	300
6,770	4,675	Tractebel	6,650
10,300	5,300	UCB	9,950
6,200	3,705	Wagons Lits	5,630

AUSTRALIA

1986/7 High	Low	Feb. 27	Price Aust. $
4.2	2.55	ACI Intl	3.95
16.6	10.3	Adelaide Steams.	14.0
4.8	2.88	Amcor	4.80
6.3	4.4	ANZ Group	5.50
3.22	2.05	Ampol Pet	3.15
3.75	2.0	Ariadne	3.55
3.1	1.15	Ashton	3.10
3.6	2.1	Aust. Guarantee.	3.50
3.70	2.45	Aust. Nat. Inds.	3.25
11.1	5.9	Bell Group	10.85
5.79	3.70	Bell Res.	4.45
3.75	1.05	Bond Corp Hldgs.	2.72
4.8	2.6	Boral	4.68
3.53	1.9	Bougainville	3.24
8.9	4.3	Brambles Inds	8.70
1.89	0.59	Bridge Oil	0.95
10.45	6.2	BHP	10.40
10.5	5.3	Burns Philip	9.70
8.30	5.48	CRA	6.70
4.3	2.60	CSR	3.85
6.6	2.7	Chase Corp.	4.70
1.24	0.65	Claremont Pet.	0.80
6.4	4.1	Coles-Myer	6.15
2.85	1.80	Comalco "A"	2.60
0.36	0.10	Consolidated Pet	0.35
4.2	1.7	Costain Aust.	3.95
5.24	2.0	Elders IXL	5.06
1.9	1.41	Energ Res	1.80
2.85	2.16	Gen. Prop. Trust	2.72
4.7	3.0	Hardie (James)	4.60
3.46	1.55	Hartogen Energy	3.20
18.7	4.85	Herald W'yTimes	18.50
3.5	2.12	ICI Aust.	3.35
9.0	4.8	Industrial Equity	8.76
0.46	0.18	Jimberlana F.P.	0.42
1.3	0.50	Kia Ora Gold	1.04
8.4	4.9	Kidston Gold	7.30
12.3	5.74	Lend Lease	12.30
3.12	1.53	MIM	2.26
4.5	2.68	Mayne Nickless	4.25
6.6	4.0	Nat. Aust. Bank.	5.50
23.9	4.51	News	23.90
3.85	2.4	Nicholas Kiwi	3.80
3.6	0.65	Noranda Pacific	3.60
2.85	1.70	North Bkn Hill	2.43
1.28	0.65	Oakbridge	0.66
5.30	2.27	Pacific Dunlop	5.30
3.60	1.7	Pancontinental	3.22
3.50	2.46	Pioneer Conc.	3.48
3.55	2.00	Placer Pacific	2.50
7	2.02	Poseidon	7
1.97	1.34	Queensland	1.47
5.56	3.28	Santos	3.91
5.2	3.95	Smith (Howard)	5.08
4.65	2.18	TNT	4.60
6.7	5.2	Tooth	6.00
3.25	1.85	Vamgas	2.8
6.38	2.82	Western Mining	5.90
5.28	4.4	Westpac Bank	4.70
2.0	0.75	Woodside Petrol	1.85
4.10	2.65	Woolworths	3.58
4.75	3.35	Wormald Intl	4.01

GERMANY

JAPAN

DENMARK

FINLAND

NORWAY

SOUTH AFRICA

SWITZERLAND

ITALY

NETHERLANDS

SWEDEN

FRANCE

HONG KONG

SINGAPORE

SPAIN

CANADA

TORONTO

Closing prices February 27

MONTREAL

Closing prices February 27

OVER-THE-COUNTER

Nasdaq national market, closing prices, February 27

Continued from Page 29

Indices

NEW YORK

CANADA

NEW YORK ACTIVE STOCKS

Closing prices, February 27

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
29⅞	16⅝	AAR s	.50	1.7	22	1310	u30⅞	30⅛	30¼	+⅜
34	21⅞	ADT	.92	2.9	18	124	32⅞	32¼	32¾	−⅜
38½	20	AFG s	.12i	.3	11	455	37¾	37	37⅜	−¼
37	16¾	AGS			21	184	36⅞	36⅛	36⅝	−⅞
15	6¾	AMCA				14	8¼	8⅛	8⅛	
9	4⅞	AM Intl			292	3390	8⅞	8½	8¾	−⅛
62⅛	47¼	AMR			19	2750	59	58	59	+½
16½	10	ARX	.71t	5.4	13	177	13⅛	13	13⅛	+⅛
43¾	28¾	ASA	2a	4.6		1210	u44	43¼	43⅜	−⅜
18	9¾	AVX		2.0		159	16	15¾	15⅞	
32	26½	AZP	2.72	8.6	10	2361	31¾	31⅜	31¾	+⅛
62⅝	33	AbtLb s	.84	1.4	26	5477	61⅞	59½	60	−1⅜
34	25	AccoWd .62		1.9	21	45	33½	32⅞	32⅞	−½
14⅛	9	AcmeC .40		3.0	25	103	13¼	12⅞	13¼	+¼
9¼	6⅛	AcmeE .32b		4.6	24	30	7	7	7	
23⅞	18⅛	AdaEx 3.42e		16.		90	22⅛	21¾	22	+⅛
18⅝	11⅜	AdmM s .24		1.3	14	10	18⅛	18	18	
20⅞	12⅛	AdvSys .62t		3.1	16	159	18⅞	18⅞	19⅞	+¾
32¾	12⅞	AMD				2826	22	21⅜	21¾	+⅜
10⅝	5⅛	Adobe				72	8⅝	8½	8½	
20	13¾	Adob pf 1.84		9.3		2	19¾	19¾	19¾	−¼
21⅞	16⅝	Adob pf 2.40		11.		20	21⅜	21¼	21⅜	+¼
18⅝	11½	Advest .12a		.9	10	85	13¼	13	13	−⅛
67⅝	53	AetnLf 2.64		3.9	11	5378	u68¼	67¼	67½	+⅛
54⅜	51⅛	AetL pf3.94e		7.5		20	52⅞	52⅞	52⅞	

Continued on Page 29

NYSE COMPOSITE CLOSING PRICES

Continued from Page 28

X Y Z

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close	Ch'ge Prev. Close
74½	48⅝	Xerox	3	4.1	19	2533	73¾	72⅞	73¼	−¼
58¾	55	Xerox pf5.45		9.5		1728	57¼	56⅞	57¼	+¼
28¾	21½	XTRA	.64	2.3		520	28	27⅝	28	+¼
20¼	13½	Yorkin n			23	118	20¼	19⅞	20	
8	2¼	Zapata				449	3½	3¼	3½	
43⅞	20¾	Zayre s	.32	1.1	21	1722	29½	28¾	29⅜	+⅝
17	8¾	Zemex	.40	3.2	8	10	12⅝	12⅜	12⅜	−⅛
29⅞	18⅞	ZenithE				1828	23⅝	22⅞	23⅛	−⅜
18¼	8	ZenLb s			72	5217	11¾	11⅛	11½	+½
22⅜	12⅝	Zero	.36	2.0	20	40	18⅝	18⅜	18⅜	−¼
49⅝	32¾	Zurnin	1.32	2.7	19	150	u49½	49⅛	49½	+¼
10⅜	8¼	Zweig n.10a		1.1		914	9⅝	9⅜	9½	−⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls – sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-divident or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in-full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

Closing prices February 27

OVER-THE-COUNTER

Nasdaq national market, closing prices, February 27

Continued on Page 27

CURRENCIES, MONEY & CAPITAL MARKETS

FOREIGN EXCHANGES

Fear of central banks overrides bad news

By Colin Millham

THE QUESTION the foreign exchange market is now asking is: has underlying sentiment changed towards the dollar?

The US currency survived some disappointing news last week, without coming under any heavy pressure. Dealers suggested there was no change in underlying sentiment, but a sharp drop in US durable goods orders and a rise in the January trade deficit failed to push the dollar into a lower trading range.

Fear of intervention by central banks increased after the meeting of the Group of Five, plus Canada, in Paris the previous weekend. The six leading industrial nations agreed to stabilise the currency market, but gave no details of how this was to be achieved.

Mr Kiichi Miyazawa, Japanese Finance Minister, returned to Tokyo and gave a press conference, but refused to reveal details of the agreement.

Mr James Baker, US Treasury Secretary, and Mr Paul Volcker, chairman of the Federal Reserve Board, spoke to Congressional committees in Washington, but also failed to inform the market on the details of the Paris accord.

There was a general reluctance to test the resolve of the central banks however, in spite of the wish to find out whether the US Federal Reserve has agreed to join in co-ordinated foreign exchange intervention.

Dealers suspected the Fed was prepared to show its presence in the market, as part of the agreement to encourage economic growth in countries such as Japan and West Germany, but would not give strong support to the dollar for fear of provoking the protectionist lobby in the US.

The widening of the January US trade deficit to $14.8bn from a revised $12.7bn in December was in line with most forecasts however, and did not provide a platform for a sustained attack on the dollar. The initial December deficit of $10.7bn was always regarded as suspect, and likely to be revised upwards.

The tone was set on Thursday, when the dollar shrugged off a very large fall in January durable goods orders. A drop of 7.5 per cent in January orders, compared with forecasts of a fall of 0.5 to 1.0 per cent, pushed the dollar down sharply, but the recovery was almost immediate, as dealers saw DM 1.81 as a possible level to provoke central bank intervention.

Japanese and West German trade figures made interesting comparison with the US. The strength of the yen over the last 18 months may at last be having an impact. Japan's current account surplus fell to $4.95bn in January from a record $9.36bn in December, while West Germany's surplus narrowed to DM 4.9bn in January from DM 8.5bn in December.

President Reagan was not untouched by the Tower Commission report on the arms for Iran scandal, but although the report was scathing of Mr Reagan's judgment, it did not suggest he had acted illegally. On the other hand the final assessment of the president is likely to remain highly critical, and could have a longer term impact on the dollar.

The other fear centred on Brazil's decision to suspend payment on foreign debt, and Argentina's threat to follow suit. The impact on the world banking system of possible default by South American countries remained in the background however, but like the Tower report could return to haunt the dollar in the future, since US banks are particularly vulnerable in this respect.

£ IN NEW YORK

Feb 27	Close	Previous Close
£ Spot	1.5475-1.5485	1.5400-1.5410
1 month	0.60-0.59 pm	0.60-0.58 pm
3 months	1.65-1.62 pm	1.65-1.62 pm
12 months	5.34-5.24 pm	5.40-5.30 pm

Forward premiums and discounts apply to the U.S. dollar.

STERLING INDEX

	Feb. 27	Previous
8.30 am	69.7	69.4
9.00 am	69.7	69.4
10.00 am	69.8	69.4
11.00 am	69.8	69.4
Noon	69.7	69.4
1.00 pm	69.7	69.5
2.00 pm	69.8	69.5
3.00 pm	69.8	69.4
4.00 pm	69.9	69.4

CURRENCY MOVEMENTS

February 27	Bank of England Index	Morgan Guaranty Changes %
Sterling	69.9	−24.2
U.S. Dollar	103.8	−3.3
Canadian Dollar	78.4	−10.4
Austrian Schilling	100.6	+10.5
Belgian Franc	98.4	−3.8
Danish Krone	93.9	+4.5
Deutsche Mark	148.0	+22.4
Swiss Franc	171.3	+21.6
Guilder	135.2	+14.7
French Franc	72.2	−12.3
Lira	48.5	−16.3
Yen	209.4	+56.4

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base average 1975=100).

CURRENCY RATES

Feb. 27	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	—	0.81862	0.731849
U.S. Dollar	5.5	1.2642	1.12851
Canadian $	8.20	*	1.50374
Austrian Sch.	4	16.2714	14.5330
Belgian Franc	8½	47.8751	42.7960
Danish Krone	7	8.71975	7.79971
Deutsche Mark	3.0	2.3094	2.06687
Neth. Guilder	4½	2.61055	2.33545
French Franc	9½	7.6989	6.87828
Italian Lira	12	N/A	1469.89
Japanese Yen	2½	193.48	173.114
Norway Krone	8	8.84680	7.89055
Spanish Peseta	—	162.824	145.352
Swedish Krona	7½	8.17299	7.30147
Swiss Franc	3.5	1.94432	1.73847
Greek Drach.	20½	N/A	151.559
Irish Punt	—	N/A	0.776410

*C$/SDR rate for Feb. 26; 1.68390

OTHER CURRENCIES

Feb. 27	£	$
Argentina	2.2155-2.2245	1.4350-1.4450
Australia	2.2815-2.2845	1.4760-1.4775
Brazil	27.3500-27.5000	17.7170-17.8060
Finland	6.9775-6.9975	4.5255-4.5275
Greece	205.25-208.85	132.90-135.15
Hong Kong	12.0440-12.0550	7.7935-7.7955
Iran	111.95*	72.50*
Korea (Sth)	1310.30-1322.15	851.20-858.20
Kuwait	0.42840-0.42900	0.27720-0.27740
Luxembourg	58.40-58.50	37.75-37.85
Malaysia	3.8855-3.8955	2.5135-2.5165
N. Zealand	2.7520-2.7595	1.7810-1.7840
Saudi Ar.	5.7955-5.8010	3.7500-3.7510
Singapore	3.2960-3.3030	2.1330-2.1360
S. Af. (Cm)	3.1975-3.2200	2.0740-2.0780
S. Af. (Fn)	6.1810-6.4395	4.0000-4.1670
Taiwan	53.85-54.15	34.95-35.05
U.A.E.	5.6760-5.6810	3.6725-3.6735

* Selling rate.

FORWARD RATES AGAINST STERLING

	Spot	1 mth	3 mths	6 mths	12 mths
US Dollar	1.5460	1.5401	1.5297	1.5171	1.4930
D-mark	2.8250	2.8084	2.7792	2.7414	2.6692
French Fr.	9.4025	9.3828	9.3547	9.3288	9.2772
Swiss Fr.	2.3750	2.3615	2.3355	2.3021	2.2365
Yen	236.75	235.44	232.97	229.74	223.56

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu February 27	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	42.7960	+0.80	+0.80	±1.5344
Danish Krone	7.85212	7.79971	−0.67	−0.67	±1.6404
German D-Mark	2.05853	2.06687	+0.41	+0.41	±1.0981
French Franc	6.90403	6.87828	−0.37	−0.37	±1.3674
Dutch Guilder	2.31943	2.33545	+0.69	+0.69	±1.5012
Irish Punt	0.768411	0.776410	+1.04	+1.04	±1.6684
Italian Lira	1483.58	1469.89	−0.92	−0.92	±4.0752

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

EXCHANGE CROSS RATES

Feb. 27	£	$	DM	YEN	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1.	1.546	2.825	236.8	9.403	2.375	3.188	2008.	2.061	58.45
$	0.647	1.	1.827	153.2	6.083	1.537	2.061	1299.	1.333	37.80
DM	0.354	0.547	1.	83.81	3.328	0.841	1.128	710.9	0.729	20.69
YEN	4.224	6.530	11.93	1000.	39.71	10.03	13.46	8483.	8.703	246.9
F Fr.	1.064	1.644	3.005	251.8	10.	2.526	3.390	2136.	2.191	62.16
S Fr.	0.421	0.651	1.189	99.68	3.959	1.	1.342	845.6	0.868	24.61
H Fl.	0.314	0.485	0.886	74.27	2.950	0.745	1.	630.0	0.646	18.34
Lira	0.498	0.770	1.407	117.19	4.682	1.183	1.587	1000.	1.026	29.10
C $	0.485	0.750	1.371	114.9	4.563	1.153	1.547	974.6	1.	28.37
B Fr.	1.711	2.645	4.833	405.0	16.09	4.063	5.453	3436.	3.525	100.

Yen per 1,000: French Fr per 10: Lira per 1,000: Belgian Fr per 100.

EURO-CURRENCY INTEREST RATES

Feb. 27	Short term	7 Days' notice	One Month	Three Months	Six Months	One Year
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Long-term Eurodollars: Two years 6¾-6⅞ per cent; three years 7-7⅛ per cent; four years 7⅛-7⅜ per cent; five years 7⅜-7½ per cent nominal. Short-term rates are call for US Dollars and Japanese Yen; others, two days' notice.

POUND SPOT—FORWARD AGAINST THE POUND

Feb. 27	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.5400-1.5500	1.5455-1.5465	[illegible]	[illegible]	[illegible]	[illegible]

Belgian rate is for convertible francs. Financial franc 59.10-59.20. Six-month forward dollar 2.92-2.87c pm. 12-month 5.35-5.25c pm.

DOLLAR SPOT—FORWARD AGAINST THE DOLLAR

Feb. 27	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.5400-1.5500	1.5455-1.5465	[illegible]	[illegible]	[illegible]	[illegible]

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 38.20-38.30.

LIFFE LONG GILT FUTURES OPTIONS

[illegible]

LIFFE US TREASURY BOND FUTURES OPTIONS

[illegible]

LIFFE FT-SE 100 INDEX FUTURES OPTIONS

[illegible]

LIFFE £/$ OPTIONS

[illegible]

LONDON SE £/$ OPTIONS

[illegible]

PHILADELPHIA SE £/$ OPTIONS

[illegible]

LIFFE—EURODOLLAR OPTIONS

[illegible]

LONDON

20-YEAR 12% NOTIONAL GILT

[illegible]

10% NOTIONAL SHORT GILT

[illegible]

THREE-MONTH STERLING

[illegible]

US TREASURY BONDS (CBT) 8%

[illegible]

FT-SE 100 INDEX

[illegible]

THREE-MONTH EURODOLLAR

[illegible]

US TREASURY BONDS 8%

[illegible]

CURRENCY FUTURES

[illegible]

CHICAGO

U.S. TREASURY BONDS (CBT) 8%

[illegible]

U.S. TREASURY BILLS (IMM)

[illegible]

CERT. DEPOSIT (IMM)

[illegible]

THREE-MONTH EURODOLLAR (IMM)

[illegible]

JAPANESE YEN (IMM)

[illegible]

DEUTSCHE MARK (IMM)

[illegible]

SWISS FRANC (IMM)

[illegible]

STANDARD & POORS 500 INDEX

[illegible]

MONEY MARKETS

Truce on rates cut

UK clearing bank base lending rate 11 per cent since October 15

UNDERLYING SENTIMENT was good on the London money market last week. There was widespread expectation that bank base rates will soon be cut, but not before the Budget on March 17.

Pressure for an earlier reduction subsided, after the previous week's message from the authorities that this was not welcome.

The market and the Bank of England reached a state of virtual truce last week. The discount houses did not wish to sell long dated band 4 bills at existing official intervention rates, because of the potential profit if rates are cut during the life of the paper, but the central bank had no intention of creating the impression that rates were about to be cut.

Bills were therefore sold to the authorities for resale to the market, but this paper will not go back to the discount houses until the end of this month and beginning of April.

Sentiment was encouraged by forecasts of improving UK productivity and steady growth, by the Confederation of British Industry and the London Business School.

The normally cautious National Institute of Economic and Social Research was also optimistic, halving its prediction of the likely current account deficit this year.

Sterling suffered from nervousness about oil prices, but finished the week at the highest level since last September, according to the exchange rate index, at 69.9.

Three-month interbank moved within a narrow range, between 10 11/16 per cent and 10⅝ per cent.

FT LONDON INTERBANK FIXING

[illegible]

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

WEEKLY CHANGE IN WORLD INTEREST RATES

[illegible]

London—band 1 bills mature in up to 14 days, band 2 bills 15 to 33 days, band 3 bills 34 to 63 days and band 4 bills 64 to 91 days. Rates quoted represent Bank of England buying or selling rates with the money market. In other centres rates are generally deposit rates in the domestic money market and their respective changes during the week.

MONEY RATES

NEW YORK (4 pm)

[illegible]

LONDON MONEY RATES

[illegible]

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

"RIGHTS" OFFERS

[illegible]

هكذا من الأصل